



The University of Manchester

Financial statements

For the year ended 31 July 2005

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Chairman's Foreword



Norman Askew

I am pleased to provide a Foreword for this Inaugural set of Financial Statements for The University of Manchester.

As you will see on the pages that follow, the University has enjoyed an exceptionally successful first year. It has overcome most of the operational difficulties associated with the merger and has established itself as a major player on the international higher education scene.

The unification of UMIST and the Victoria University of Manchester presented us with a unique opportunity to rethink the very idea of a 21st century university.

Our shared vision for the future of The University of Manchester was set out in October 2005 in our Strategic Plan, *'The Manchester 2015 Agenda'*. I am delighted

that the President and Vice-Chancellor and his colleagues are approaching the realisation of the ambitious goals set out in that document with such energy, commitment and enthusiasm.

As I pointed out in my Foreword to The Manchester 2015 Agenda, the realisation of such a bold agenda will also require meticulous planning and efficient management, not least in the financial area. I am pleased to see evidence in this set of Financial Statements that we are now beginning to deploy our resources so that they clearly reflect our academic priorities.

We still have much work to do to realise our ambition to become one of the top 25 universities in the world by 2015, but we have made an encouraging start and we can approach the future with great confidence and enthusiasm.

A handwritten signature in black ink, which appears to read 'Norman Askew'.

Norman Askew
Pro-Chancellor and Chair of the
Board of Governors

Officers and advisers

Officers

Co-Chancellor

Anna Ford, BA(Econ), DpAdultEd, LLD

Co-Chancellor

Sir Terry Leahy, BSc

Pro-Chancellor

Admiral Sir John Kerr, GCB, DL

President and Vice-Chancellor

Professor Alan D Gilbert, MA, DPhil, FASSA

Chair of the Board of Governors and Pro-Chancellor

Norman B M Askew, BA

Registrar and Secretary

Dugald M Mackie, MA, FRSA
(resigned 24 October 2005)

Albert McMenemy, BA, LLB
(appointed 25 October 2005)

Director of Finance

Geoffrey Hope-Terry, FCCA

Vice-Presidents (Policy)

Teaching and Learning

Professor Robert W Munn, BSc, PhD, DSc,
CChem, CPhys, FRSC, FInstP

University Development

Professor Paul Layzell, BA, MSc, PhD, CEng,
FBCS, MIEEE

Innovation and Economic Development

Professor Rod W Coombs, BSc, MSc, PhD

Research

Professor Dame Nancy J Rothwell, PhD, DSc,
FRS, FMedSci

Vice-Presidents and Deans of Faculties

Engineering and Physical Sciences

Professor John D Perkins, BSc, MA, PhD,
FICHEM, FIMA, FREng

Humanities

Professor Alistair M Ulph, BPhil, MA

Life Sciences

Professor R Alan North, MB, ChB, PhD, DSc, FRS

Medical and Human Sciences

Professor David Gordon, MA, MB, BChir, FRCP,
FMedSci

Chairs of Committees of the Board of Governors

Chair of Audit Committee

Kathleen Tattersall, OBE, BA, MEd, FRSA

Chair of Finance Committee

Nigel A L Llewellyn, MA, FCA, FRSA

Chair of Risk Committee

Gillian Easson, MA

Chair of Remuneration Committee

Norman B M Askew, BA

Chair of Nominations Committee

Admiral Sir John Kerr GCB, DL

Advisers

Bankers

National Westminster Bank plc
Barclays Bank plc

External Auditors

PricewaterhouseCoopers LLP

Solicitors

Eversheds LLP
Pinsent Masons
DLA Piper Rudnick Gray Cary

The above officers have held their appointments and have undertaken their duties and responsibilities for all but the first two months covered by these financial statements that is from 1 October 2004 (the date on which The University of Manchester came into existence, following the dissolution of The Victoria University of Manchester ('VUM') and The University of Manchester Institute of Science and Technology (UMIST)).

Officers of the legacy Universities

	VUM	UMIST
Chancellor	Anna Ford, BA(Econ), DpAdultEd, LLD	Sir Terry Leahy, BSc
Pro-Chancellor	-	Sir Robin Nicholson, BA, MA, PhD, FIM, MInstP, FREng, FRS
Vice-Chancellor	Professor Sir Martin Harris, CBE, DL	Professor John Garside, BSc(Eng), PhD, DSc, FREng, FICHEM
Chair of Council and Pro-Chancellor	Rodger Pannone, DL, DLitt, LLD, FRSA	Tom Hinchliffe, BScTech, CEng, FIEE, FBCS
Registrar and Secretary	Eddie Newcomb, OBE, BA, DipEd, FRSA	Jon Baldwin, BA, MBA, MIMgt, FCIS, FRSA
Director of Finance	Geoffrey Hope-Terry, FCCA	John Cunningham, BA, FCCA

Operating and financial review for the year ended 31 July 2005

Introduction

The University of Manchester was launched on 1 October 2004 following the double dissolution of its predecessor institutions, the Victoria University of Manchester and The University of Manchester Institute of Science and Technology (UMIST). Her Majesty the Queen visited the campus on 22 October 2004 personally to present the University's new Royal Charter.

At its inception, the new University was one of the largest employers in North West England, with a key role in the local economy as a direct investor and through the thousands of students and staff it brings to the region. It employed more than 10,000 members of staff in 2004/05, more than 4,500 of whom were academic and research staff. It registered more than 35,000 students, 9,000 of whom were postgraduates. It also contributed to the health, wealth, and cultural life of the City and the Region in myriad other ways, including the work of its teaching hospitals, the jobs created by 'spin-out' companies and the exciting programme of educational and outreach activities within the Manchester Museum, the Whitworth Art Gallery and other cultural assets.

This financial review of the University's operations during 2004/05 reflects the unique circumstances of the merger. The financial statements show the aggregate position of the two former universities in 2003/04, and full details of the merger accounting can be found in note 39 to the financial statements. For future reporting purposes, the 2004/05 figures are considered to be the more appropriate baseline data.

Operating Review

Objectives and strategies

The University took advantage of the public and media attention associated with its inauguration to unveil the '*Manchester 2015 Agenda*', a strategic plan for repositioning the University of Manchester over the next decade as one of the world's leading universities.

The preparation and approval of this Strategic Plan and of the planning, review, accountability and budgeting arrangements that it entails, had been undertaken during the spring and summer of 2004, ensuring that the new University came into being with a clear sense of purpose and direction. '*Towards Manchester 2015*' sets out the mission, values and vision of the University, identifies the key goals, strategies and operational targets that the University will pursue, and defines the Key Performance Indicators against which progress will be measured at a whole-of-institution level. The document can be accessed via the University website at www.manchester.ac.uk/2015

Resources, risks and uncertainties, and relationships

The most obvious merger-related risk confronting the new University arose from the conflation of two brands into one. Fortunately, it is already possible to report that the introduction of the University's new brand has been successful. The loss of the names of the former Universities has had no discernable adverse impact on the student recognition or public perception of the University. The reverse has been true. The quality of staff recruited and the level of student demand during 2004/05 suggests a significant accretion of brand strength, effectively discounting one of the major contingent risk scenarios at the time of the merger. Building further brand strength remains important, however. One of the University's 2015 objectives is to increase overseas fee income, a strategy involving on-going risk because of the potential volatility of overseas student markets in terms of emerging domestic competition in provider markets, changing perceptions of educational quality and the exigencies of global economic growth, financial markets and exchange rates.

The new University started its life with a high degree of financial strength. It had good revenue streams, with total income already exceeding £500 million per annum; a strong balance sheet including a high value of net assets and reserves; and a relatively low level of external borrowings for an organisation of its size. Apart from its purely financial strengths, the new University also inherited academic, research and support staff of very high calibre.

Given its ambitions to become a 'destination of choice' for the very best international academics, postdoctoral fellows, research students and undergraduates, however, the new University could not rest on these considerable laurels. It recognised the need to build on its inherited financial strengths, and augment its academic strengths by recruiting virtuoso people at all levels, including several internationally iconic scholars and research teams. To support these ambitions, the University is also facing major investment in its estate and its people. Strategies to greatly strengthen its resource base and leverage its existing assets optimally are therefore imperative for the new institution.

In relation to the imperative to enhance the physical fabric of the institution in accordance with its ambitious vision, the University is pursuing an unprecedented £350 million Capital Development Programme that will deliver 8 new buildings and 15 major refurbishment projects by 2010. Further capital developments are already under consideration for the period beyond 2010. Such a high level of investment carries a corresponding level of risk, but the University has put robust risk-

minimisation processes and controls in place. Firms of independent, external consultants have been employed to monitor progress in relation to all projects, and to report regularly, through management, to the Board of Governors to ensure that any slippage is identified early and that appropriate corrective action taken.

By providing state-of-the-art facilities for teaching and research, this ambitious capital programme will not only transform the building stock of the campus, but will also progressively strengthen the attractiveness of the University to attract outstanding international scholars and students.

A commitment to excellence in research is also driving many of the University's other strategies. Because the Research Assessment Exercise ('RAE') in 2008 will be a major opportunity for the University to test its progress towards its research goals, the Board of Governors has agreed to run a deficit to fund a major investment in outstanding academic staff during 2005/06 and 2006/07. This strategy is an example of prudent risk-taking, both because the degree of deficit funding involved is conservative and because RAE success is itself one of the key revenue drivers in English higher education. More importantly, complicating the management of the RAE process is the fact that the University is giving equal emphasis to strengthening the priority its researchers give to translational research and to the development and commercialisation of intellectual property (IP). This new emphasis, already reflected in new promotion and funding criteria, provides incentives for researchers to look beyond the relatively narrow criteria of RAE success. It has therefore to be managed in ways that do not place RAE outcomes at risk. Current indications are that this danger is being largely avoided, not least because the University's best translation research is characteristically undertaken by researchers and research groups that are also outstanding in the RAE arena.

A problem for all research intensive universities is the tension between maximising the volume of research activity currently being undertaken while also maintaining long term research capability and infrastructure. Government policy is advocating Full Economic Costing (FEC) as a means of managing this problem. The risk to all universities is that FEC in Britain will price British universities out of what is now an international marketplace for corporate R & D. The University of Manchester accepts as non-negotiable the need to remain competitive in this marketplace, while at the same time recognising the imperative to invest adequately in fundamental research infrastructure. The University is therefore firmly committed to FEC, and will ensure that all costs relating to research are recognised in a

transparent way. It will remain flexible, however, in relation to the pricing of its research activities; indeed, one of the primary reasons why great emphasis is being given to strengthening the institutions basic unit-of-resource is to ensure the continuing availability of discretionary resources to subsidise the cost-price gap in cases where strategically important research cannot command FEC levels of funding.

A key risk facing the whole of the Higher Education sector is the impact of the introduction of variable top-up fees in 2006. For a University of the strength of The University of Manchester, the risk is not related to continuing student demand under a fees regime as much as to the Government's 'fair access' policy of requiring institutions to demonstrate a clear link between the flow of new fee income and enhanced success in achieving widening participation outcomes. The University accepts the importance of widening participation, and has made it a major strategic goal. It is therefore taking a pioneering approach to the introduction of scholarships and bursaries to support students from financially disadvantaged backgrounds. The approach involves the making of firm prospective offers to students from certain (relatively small) socio-educational cohorts combining high financial need with outstanding academic achievement. Because a measure of uncertainty remains about rates of take-up of these awards, the full financial impact of the initiative remains correspondingly uncertain, but the best estimates are that the University will invest between 30 per cent and 35 per cent of its new fee income in this multi-million pound investment in scholarships and bursaries. The University is confident that the degree of uncertainty in relation to these programmes remains well within the boundaries of prudent risk.

A key enabling strategy, also involving risk, is a drive for improved administrative efficiency. The new University's cost base includes an inevitable structural deficit reflecting the merging of the legacy institutions' administrative and support services. Plans are in hand to eliminate this structural deficit over the next three years. Doing so will be important for the future financial strength of the organisation. At a more fundamental level, as part of its pursuit of efficiency improvement, the University is currently implementing major new Information Technology Systems in relation to its Student Administration, Human Resources (including Payroll) and Finance functions. Combining such systems re-engineering with the merger does carry considerable risk, so great care has been taken to ensure that plans and contingency measures are in place to guarantee the maintenance of essential

programmes. At the same time, the University is insisting new systems will be delivered on time and within budget. A major on-going challenge will be to ensure that all the potential benefits are delivered.

In line with the majority of UK employers, the funding of pension schemes is an area that currently demands a large amount of senior management time. The University's own fund, The University of Manchester Superannuation Scheme ('UMSS'), had a deficit at its last actuarial valuation in the region of £40 million. The University has addressed this by entering into a £40 million Bank Guarantee with the Royal Bank of Scotland which gives the Scheme's members and trustees the comfort of knowing that the fund is secure.

Managing pension-related risk will continue to be an issue for the University into the foreseeable future, but current indications are that it remains a clearly manageable risk. More detailed analysis in relation to pensions is available in note 34 to the financial statements 'Pension schemes'.

Current and future development of performance

Evaluation of the University's performance against its 2004/05 operational targets – all derived from the strategic goals set out in *Towards Manchester 2015* – is already well under way. A full performance 'stock take' will be reported to the Board of Governors in February 2006. Reassuringly, the preliminary analysis confirms that in all major areas the University has secured outcomes consistent with the realisation of the long term vision. In some cases, however, the 2004/05 targets took into consideration the particularly difficulties of the start-up year, requiring that rates of improvement will need to increase in the years ahead.

On the revenue side, international student fee income exceeded targets for 2004/05, as did research income. In 2003/04, the combined total research income of the two predecessor institutions, including both QR income and income from research grants and contracts, had been £173.7 million, making Manchester the fifth largest research university in the UK at its inception. In 2004/05 there has been a 10% increase in total research income to £191.5 million. Equally importantly, given the emphasis being placed on the commercialisation of research findings, disclosures of 'discoveries' constituting potentially marketable IP doubled in 2004/05 in comparison with the combined totals of the two legacy universities for 2003/04.

New Research Institutes have been launched in the areas of health sciences, neuroscience, photon science, nuclear science, and molecular imaging and global poverty. A major partnership

has been negotiated with the Christie Hospital Trust, the Paterson Institute and Cancer Research UK to create a Manchester Cancer Research Centre within the University, an initiative involving the Paterson Institute becoming part of the University, and establishing Manchester as the largest centre in Europe in the field of cancer research and an international leader in the care of cancer patients.

In relation to educational programmes, 2004/05 has seen three major developments. A new Manchester Leadership Programme has been introduced to provide students with opportunities to combine monitored community work with formal, accredited education and skills development across a range of leadership skills and disciplines. The widening participation agenda has been given impetus by the adoption of a major scholarships and bursaries programme for financially disadvantaged students wishing to study at Manchester. As part of a strong commitment to continuous improvement in the quality of teaching and learning, University-wide 'Student Satisfaction Surveys' have also been introduced. These give every student the opportunity to evaluate the quality of his/her learning experience in relation to every unit studied, and students are engaged with academic managers in following up on this feed-back in Operational Performance Reviews with all Faculties and Schools.

In November 2005, The University of Manchester was chosen as the Times Higher Education Supplement's inaugural UK 'University of the Year'.

Conclusion

2004/05 has been an exciting and demanding first year for everybody involved in getting the new University up and running. A strong foundation has been built for major successes in the next phase of implementing the *Manchester 2015 Agenda*. The financial information presented in this Review reflects the positive progress that has been made. Great credit is due to all staff in the University for achieving these results.

Professor Alan Gilbert
President and Vice-Chancellor

Financial review

The University of Manchester's first year's consolidated results for the year to 31 July 2005 show a deficit of £9.9 million, which can be summarised as follows:

	2005	2004
	£000	£000
Income	539,980	514,664
Expenditure	(541,044)	(502,060)
Operating (deficit) /surplus	(1,064)	12,604
Exceptional expenditure	(15,107)	(9,881)
Exceptional income	6,224	-
Other items	95	859
(Deficit)/surplus	(9,852)	3,582

This deficit position was budgeted to be £9.5 million. Financial deficits are to be expected during the early years of major re-organisations of the kind that the University is going through and the exceptional expenditure of £15.1 million relates exclusively to merger costs. At an operating level, the University shows a close to breakeven position, on a turnover of £540.0 million.

Exceptional income of £6.2 million relates to the disposal of fixed assets, as follows:

£ million

3.8	Sale of shares in Neutec Pharma Limited (spin-out company)
2.4	Sale of Mobberly Hall
0.5	Sale of Hardy Farm
(0.5)	Loss on disposal of the Maths Tower
6.2	

Income and expenditure review

Whilst the financial year 2004/05 is the first year of operation for the new University of Manchester and therefore there is no direct comparison year, it is possible to compare this year's performance against the merged accounts of the two prior institutions for 2003/04, and to the 2004/05 budget.

Income

Source of Income	2005 Accounts	2004 Merged Accounts	Movement	Budget 2005	Variance
	£000	£000	%	£000	%
Funding Council grants	164,263	157,723	4%	164,124	0%
Tuition Fees and education contracts	118,440	113,930	4%	112,653	5%
Research grants and contracts	130,882	116,412	12%	112,093	17%
Other operating income	112,237	114,104	-2%	110,645	1%
Endowment and investment income	14,158	12,495	13%	9,100	56%
Total Income	539,980	514,664	5%	508,615	6%

Total income has increased by 5% over the merged figures, and by 6% over the budget.

Funding Council grants showed an improvement of 4% (£6.5 million), in line with the budget.

Tuition fees and education contracts have grown by 4% (£4.5 million) over prior year figures and by 5% (£5.8 million) over budget. Overseas student income has remained constant which is acceptable when consideration is taken of the loss of the very strong UMIST brand overseas.

The University showed particularly strong growth in research grants and contracts, 12% (£14.5 million) on the merged figures and 17% (£18.8 million) against budget, although this has not produced the budgeted growth in the contribution rate, being 11% against a target of 13%. The income from Research Councils includes £2.5 million of funding in relation to the Transparent Approach to

Costing (TRAC) initiative, which identified the under-funding of research in universities, and has seen a move towards a different basis for the costing of research, Full Economic Costing.

Other operating income has fallen by 2% (£1.9 million) compared with prior year, but increased by 1% (£1.6 million) over budget. Increases in income from health authorities, administration and central services, and other general income have been more than offset by a reduction in income from services rendered, mainly due to the sale of Umitek Limited, a subsidiary company with a turnover of £9 million.

Endowment and investment income has grown by 13% (£1.7 million) over the merged figures and 56% (£5.1 million) over budget, due to increased income from short-term investments.

Expenditure

Category of expenditure	2005 Accounts	2004 Merged Accounts	Movement	Budget 2005	Variance
	£000	£000	%	£000	%
Staff costs	311,796	294,196	6%	297,912	5%
Depreciation	20,166	18,175	11%	17,545	15%
Other operating expenses	202,792	183,466	11%	190,000	7%
Interest payable	6,290	6,223	1%	6,100	3%
Total expenditure	541,044	502,060	8%	511,557	6%

Total expenditure has increased by 8% (£39.0 million) over the merged figures, with staff costs rising by 6% (£17.6 million) and other operating expenses rising by 11% (£19.3 million).

The increases in staff costs are expected, with increased research grants and contracts activity having had an immediate impact on research staff costs, and a 3% pay settlement having been awarded in August 2004. Included within staff costs is £5.1 million relating to salaries of staff who are in posts which do not form part of the new institution's structure, following the merger of the two universities. These members of staff are committed to early retirement, therefore these costs will reduce over the next few years.

Research-related operating expenses have increased by 25% (£10.1 million). Academic operating expenditure has also increased, by 12% (£5.9 million), as has estates-related expenditure, up 15% (£4.7 million). This has been partially offset by a reduction in other services rendered expenditure and administration and central services expenditure, which fell by 31% (£2.0 million) and 23% (£2.3 million) respectively. This reduction is due mainly to the sale of Umitek Limited, in line with the fall in income.

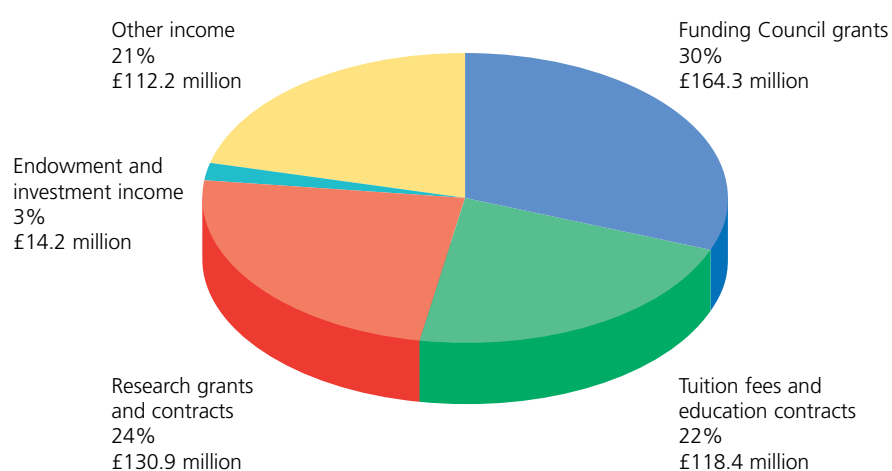
Compared to budget, total expenditure has increased by 6% (£29.5 million), with staff costs up 5% (£13.9 million) and other operating expenses up 7% (£12.8 million). This is mainly due to significantly increased research grants and contracts activity (17%) against budget.

Analysis of income sources and expenditure categories

Sources of income

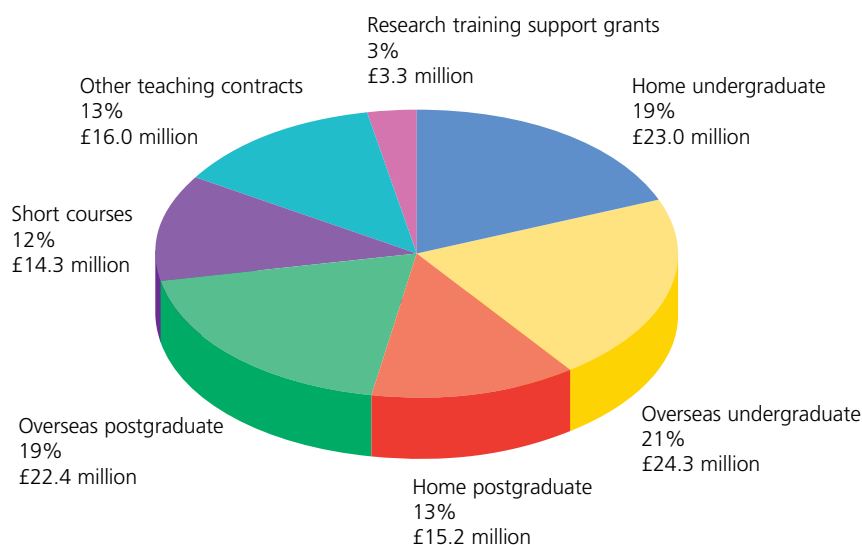
1. Total income by source

- **Funding Council grants** – grants, recurrent and specific, received from Government funding bodies, for example Higher Education Funding Council for England and Teacher Training Agency
- **Tuition fees and education contracts** – tuition fee income received from various sources, for example students, local education authorities and short courses
- **Research grants and contracts** – income from sponsors in relation to the University's research activity
- **Endowment and investment income** – endowments are bequests and gifts, where the use of the capital and income, or only the income, is for general or specific purposes of the university. The income is dividends and interest earned on endowments
- **Other operating income** – all other income earned by the University, for example residences, catering and conferences.



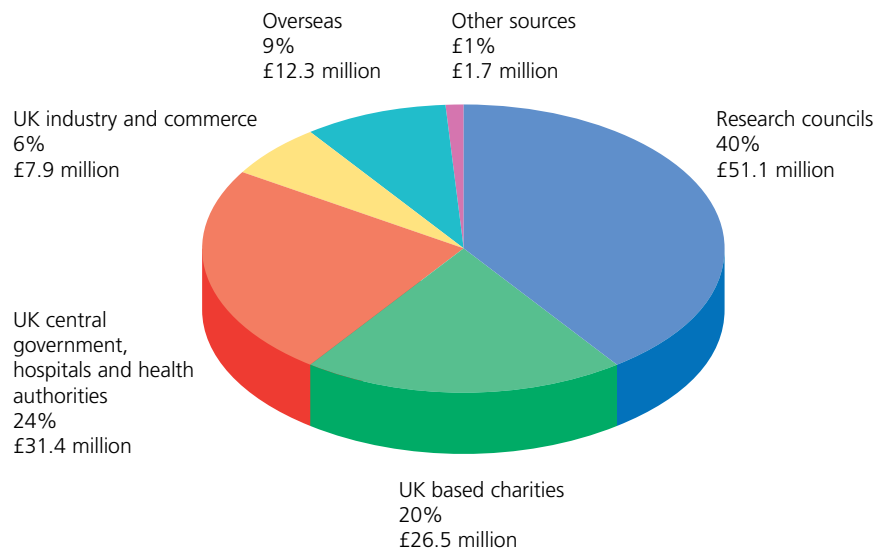
2. Tuition fees and education contracts income by source

- **Home undergraduate** – UK and EU students undertaking a Bachelor of Arts or Science degree
- **Overseas undergraduate** – non-EU students undertaking a Bachelor of Arts or Science degree
- **Home postgraduate** – UK and EU students undertaking postgraduate teaching courses or research
- **Overseas postgraduate** – non-EU students undertaking postgraduate teaching courses or research
- **Short courses** – non-credit bearing courses, for example continuing education and training courses
- **Other teaching contracts** – fee income from other teaching contracts, including £12.4 million from the strategic health authority for teaching undergraduate nursing students
- **Research Training support grants** – grants to support research training.



3. Research grants and contracts income by source

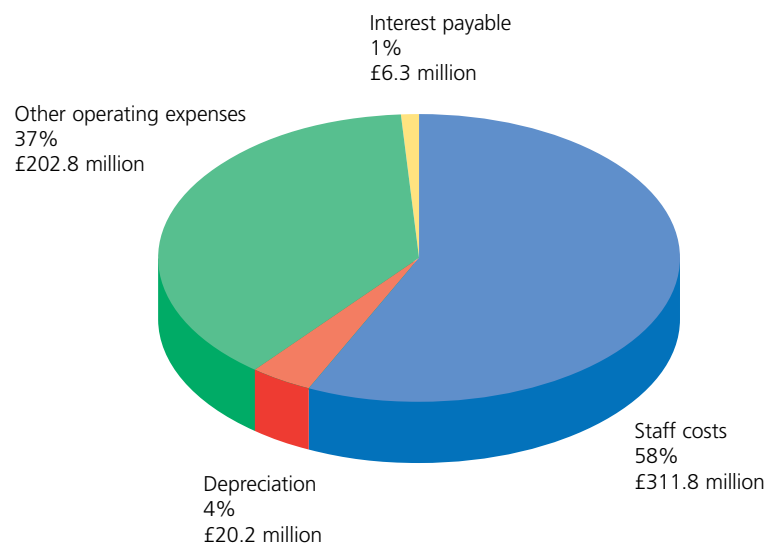
- **Research Councils** – public funds received from the main subject based/academic based Research Councils as part of the Government's dual support funding for research, for example Medical Research Council, Engineering and Physical Sciences Research Council
- **UK based charities** – income for projects sponsored by UK based charities, for example Wellcome Trust, British Heart Foundation
- **UK central government, hospitals and health authorities** – income for projects sponsored by government bodies, for example NHS and Office of the Deputy Prime Minister
- **UK industry and commerce** – contracts entered into with companies and other organisations from across industry groups
- **Overseas** – income from the European Union, including the European Commission, and other overseas companies and organisations
- **Other sources** – income from sponsors not covered in the above categories, for example Royal Pharmaceutical Society and Independent Television.



Expenditure by category

1. Total expenditure by category

- **Staff costs** – expenditure incurred on staff salaries and wages, including employers' national insurance and superannuation contributions
- **Depreciation** – allocation of the cost of an asset over its useful life. The depreciation charge in the financial statements is the charge for that particular year
- **Other operating expenses** – all other non-pay expenditure incurred by the University
- **Interest payable** – interest payable on external borrowings and bank overdrafts.



2. Staff costs by category

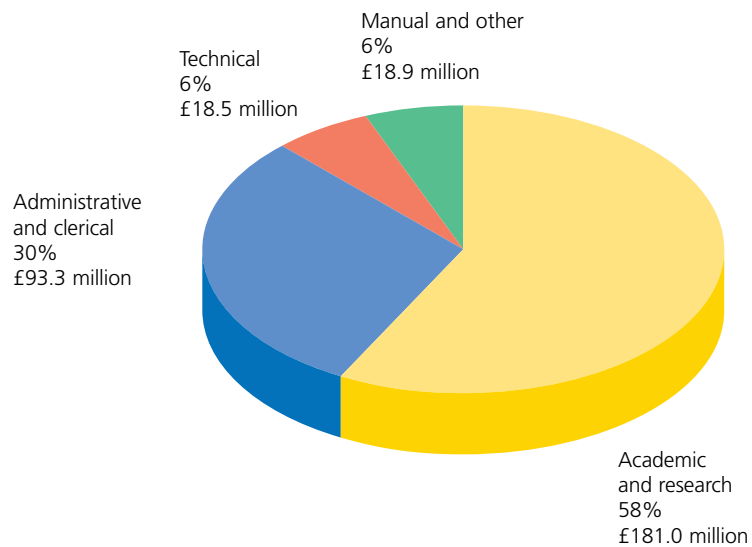
The University employs over 10,000 staff (headcount), across a range of academic and support roles.

Academic and research – costs relating to academic and research staff, for example lecturers and research associates

Administrative and clerical – costs relating to administrative and clerical staff, for example Heads of Faculty Administration, HR and finance, clerks and secretarial staff

Technical – costs relating to technical staff, for example laboratory technicians and audio technicians

Manual and other – costs relating to manual and other staff, for example security staff, porters and gallery attendants.



3. Other operating expenses by category

• **Teaching and research activities** – expenditure incurred by academic departments in all aspects of teaching and research activities

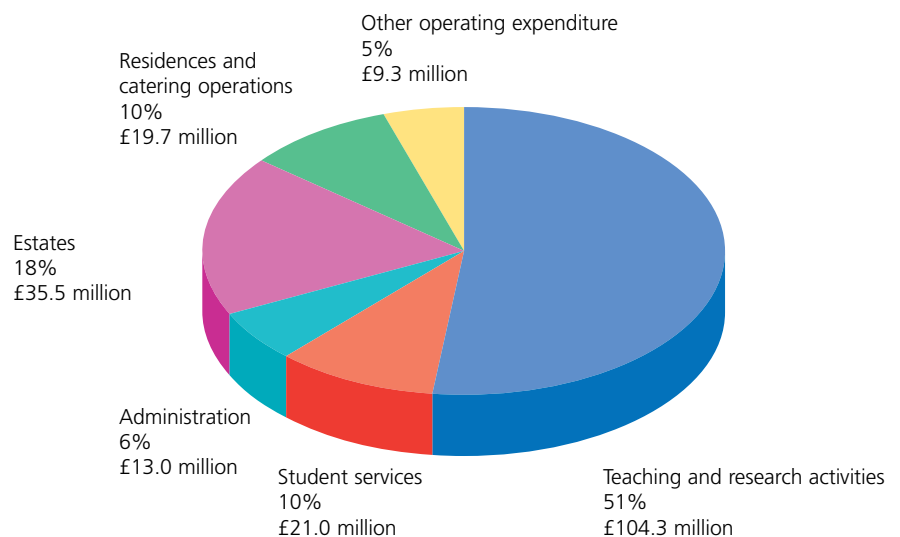
• **Administration** – expenditure incurred in the administrative operation of the University, for example central computer support, alongside other University-wide costs, which include legal fees, recruitment and removal expenses, insurance, subscriptions and grants to the Students' Union

• **Estates** – expenditure incurred in relation to the upkeep and function of the estate, for example repairs, maintenance, rates and utilities

• **Student services** – expenditure incurred in the provision of student services, for example library and information services. This category also includes expenditure on the University's cultural assets, such as the Whitworth Art Gallery and the Manchester Museum

• **Residences and catering operations** – expenditure incurred in the running of halls of residences and catering outlets

• **Other operating expenditure** – all other expenditure incurred by the University.



Balance sheet review

The net assets of the new University stand at £459.2 million, including the pension deficit resulting from the implementation of FRS 17 as detailed below. This is an increase of 14% (£56.6 million) compared with the merged accounts of the two prior institutions for 2003/04.

Financial Reporting Standard (FRS) 17 implementation

The financial statements for 2004/05 have been drawn up in accordance with FRS 17 'Retirement Benefits'. This gives a clearer understanding of the pension funding position, and although it is not mandatory for the Higher Education sector to introduce this approach until 2006, the University has implemented the standard early.

Accounting convention requires that where a significant new accounting policy is adopted, such as FRS 17, the figures from the previous year have to be "restated" and this has taken place within the financial statements. The budget for the 2004/05 financial year did not take into account the early adoption of FRS 17 and the resulting adjustments.

It should be noted that under FRS 17, the projected cash flows are discounted using a rate that is in line with the yield on high quality corporate bonds, to give the deficit of £10.7 million reported in the financial statements in relation to the UMSS pension scheme. The actuarial valuation of this scheme used a lower discount rate, in line with the yield on gilts, to give a projected deficit of £40 million which is covered by a Bank Guarantee as discussed within the Operating Review on page 7.

The adjustment for FRS 17 also reflects the University's participation in certain other pension schemes as set out in note 34 'Pension schemes'.

Fixed assets

Expenditure during the year on the capital development programme has been £80.0 million, bringing the total net book value of land and buildings to £330.4 million. This expenditure has been funded by the utilisation of cash balances (£49 million), by further external borrowings (£25 million), and by capital grants, as shown by movements in the financial statements.

The total insured value of the University's estate is £2.2 billion, compared to £1.8 billion in 2004.

The Tabley estate was revalued during the year, thus increasing the value of investments within fixed assets by £12 million and endowment assets by £8 million.

Endowment assets

The value of other endowment assets has increased, in particular UK and overseas industrial and commercial securities, by approximately £16 million.

Current assets

Debtors include a sum of £8 million due to the University from the Higher Education Funding Council for England (HEFCE) for grants relating to the Capital Programme and other grants due of £3.8 million. Trade Debtors have increased by £6 million with accrued income on research increasing by £5 million.

Investments have fallen as a result of the use of the University's own money to fund the Capital Programme.

Creditors

Accruals and deferred income include an accrual of £5 million for the payment of the Higher Education Role Analysis (HERA) pay award, backdated to October 2004.

Amounts falling due after more than one year include a new loan agreed with the European Investment Bank for £25 million.

Deferred capital grants

Deferred capital grants have increased in line with the Capital Development Programme.

Revaluation reserve

The revaluation reserve has benefited from the revised value of investments (in particular the Tabley Estate).

Investment Performance

The University operated four investment portfolios during the year, with a combined value of over £143 million. The total returns on the investments and cash held in these funds for the 12 months ended 30 June 2005 the comparable valuation period of the World Market Fund (WM Fund) which is used as a benchmark, are as follows:

General Fund	18.1%
Consolidated Fund	16.8%
Simon Fund	16.8%
Hallsworth Fund	15.8%

The total return for the WM Fund benchmark during the same period was 15.6%.

Annualised returns for the University portfolios for the five year period to 30 June 2004, shown below, demonstrate that the University continues to outperform the WM average return of 0.2%:

General Fund	2.8%
Consolidated Fund	2.7%
Simon Fund	3.1%

No five year figure is quoted for the Hallsworth Fund, as the portfolio did not exist prior to 1 December 2002, and its performance cannot yet be measured over the longer term.

Conclusion

The University is proud to present its first operating and financial review. In future years this will draw out some of the Key Performance Indicators which are relevant to the achievement of the Manchester 2015 Agenda and by measuring and monitoring progress over the period it will be possible to track the University's journey as it pursues its goal of becoming one of the leading Universities in the world by 2015.

Geoffrey Hope-Terry
Director of Finance

Civic Dinner Supports John Rylands Library

Manchester Town Hall was the venue for a dinner in support of The John Rylands Library's £16 million project Unlocking the Rylands. With the support of the Heritage Lottery Fund and the European Regional Development Fund, the John Rylands Library on Deansgate is to gain a new entrance wing, as well as a new roof to replace the present concrete one which after 100 years is suffering from deterioration. President and Vice-Chancellor Professor Alan Gilbert and Chair of the Governing Body and Pro-Chancellor Norman Askew attended the event, hosted by the Leader of Manchester City Council, Councillor Richard Leese.



New £50 million Research Centre to Open in Honour of Nobel Laureate

The first of three state-of-the-art facilities, forming one of the largest biomedical complexes in Europe, was officially opened on 8 March. The new £50 million Michael Smith Building, named in honour of the late

Nobel Laureate, is the base for 800 University of Manchester scientists. Dr Smith's son, Tom, flew in from Vancouver especially for the ceremony to open the new facility.



Double Celebration for Nobel Laureate

Nobel Laureate and President of New York's Rockefeller University, Professor Sir Paul Nurse, was awarded an Honorary Degree by the University in July. But it was twice the delight for Sir Paul as he was able to watch his daughter Emily receive her PhD in Physics at the same ceremony.



HM Queen Presents New Royal Charter to The University of Manchester

Her Majesty The Queen visited the campus on Friday, 22 October 2004 to present the Royal Charter for the newly-created University of Manchester to Co-Chancellor Miss Anna Ford. The new University was created by combining two of the UK's most distinguished research institutions, UMIST and the Victoria University of Manchester. An unprecedented £350 million capital investment programme will help to make Manchester an academic powerhouse in terms of facilities and research capacity. Overnight, The University of Manchester acquired the size and resources to compete on a global scale.



Vice-President Honoured by HM The Queen

Professor Nancy Rothwell, MRC Research Professor and Vice-President for Research at the University, was made Dame Commander of the Order of the British Empire in the Queen's Birthday Honours List in June 2005. Professor Dame Nancy Rothwell, her official title, said she was delighted to be given the honour, which was made in recognition of her 'services to science'.

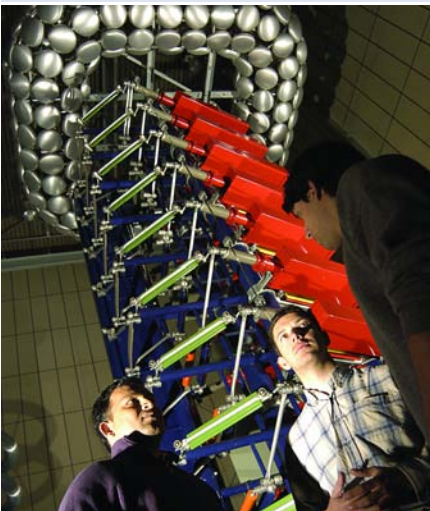


The University Unveils Scholarships and Bursaries Package

The University of Manchester announced a package of scholarships of up to £10,000 per year to attract the best students to the University. Our programme of scholarships and bursaries is one of the most generous schemes on offer in UK Higher Education.



£11.4 million Award to Produce 'Highest-Quality' Engineers and Scientists



In February, The University of Manchester was awarded £11.4 million to produce the highest-quality engineers and scientists of the future. The award is one of the largest ever made by the Engineering and Physical Science Research Council (EPSRC) for postgraduate training.

University Tops Careers Poll for Third Year in a Row

The University of Manchester's Careers Service was voted the best in the country for the third year running in the latest survey of graduate recruiters. It has consistently topped the league since the first survey was commissioned in 2002.

More than 120 graduate recruiters, who collectively employed over 11,000 graduates in the past 12 months, took part in the AGR/Barkers National Graduate Media Audit.



UK's Largest Nuclear Institute Launched



The University's Dalton Nuclear Institute was launched on 18 July. The Institute will be the hub for all nuclear research and education at Manchester and will also act as a bridge to other world-class research organisations around the world. More than 100 academics, research staff and students will be led by Professor Richard Clegg, previously Director of Science at the British Nuclear Fuels (BNFL). The launch event was held at the Royal Academy of Engineering in London.

Discovery of Two-Dimensional Fabric

Researchers from The University of Manchester and Chernogolovka, Russia, discovered the world's first single-atom-thick fabric, which reveals the existence of a new class of materials and may lead to computers made from a single molecule.

The team, led by Professor Andre Geim at The University of Manchester, has succeeded in extracting individual planes of carbon atoms from graphite crystals, which has resulted in the production of the thinnest possible fabric - graphene.



Manchester Tops University Popularity League

The University of Manchester was named the UK's most popular university, according to figures released in February 2005. The University received almost 57,000 applications for its undergraduate courses between October 2004 and February 2005, the Universities of Central and Colleges Admissions Service (UCAS) statistics revealed. The number represents an overall increase of 2.3% on the previous year based on home and overseas applications received by 15 January 2005, confirming Manchester as the country's premier destination for would-be students.



The University of Manchester Creates Spending Boom for the North West

A report in November 2004 revealed that The University of Manchester generates £1.4 billion for the North West region every year; and this will double to £2.8 billion over the next decade. The University also supports 15,420 jobs in the region, and this figure is set to grow to 30,000 by 2015.



Chancellor Dubs The University of Manchester a 'Great World Leader Of The Future' at the Incubator Opening

Rt Hon Gordon Brown MP Chancellor of the Exchequer dubbed The University of Manchester one of the 'great world leaders of the future' for research and education. The Chancellor made the statement as he opened a new £1 million facility housing the University's hi-tech spin-out companies. He said: "The University is contributing not just to the employment of the area but bringing wealth creation to the whole economy. The University of Manchester is going to be one of the great world leaders of the future. I have seen their plans and I am convinced that it is going to happen."



Pioneer of First Computer Honoured with New Laboratory

A University of Manchester scientist who helped pioneer the world's first stored program computer has been honoured with his own laboratory. Geoff Tootill, who as an assistant to Freddie Williams and Tom Kilburn made history as part of the team of engineers who built the computer, has had the newly refurbished Tootill Teaching Laboratory in the University's School of Computer Science named after him.



Tessa Jowell Opens Centre for Research on Socio-Cultural Change



Tessa Jowell, Secretary of State for Culture, Media and Sport, officially launched the University's Centre for Research on Socio-Cultural Change (CRESC) on Wednesday, 12 January. The Centre, which has a budget of £3.8 million over five years, brings together researchers from The University of Manchester and the Open University in a series of interdisciplinary inquiries.

Summer School Diaries

In August 2005, The University of Manchester hosted seven different summer schools aimed at widening participation among non-traditional groups. It is the biggest project of its kind undertaken by any higher education institution in the UK,

with something on offer for children of all ages from primary school to sixth-form students. More than 600 pupils enjoyed the opportunity to find out what it's like to be a student in Manchester.



Corporate governance statement

The University of Manchester is a chartered corporation which formally came into existence on 1 October 2004. It was created upon the dissolution of The Victoria University of Manchester and The University of Manchester Institute of Science and Technology (UMIST), both of whose rights, properties, assets and obligations were transferred to the new, merged institution by means of The University of Manchester Act 2004. For the first two months of the year covered by these financial statements (that is, from 1 August to 30 September 2004), The Victoria University of Manchester and UMIST operated separately under the terms of their respective Royal Charters, and, in each case, with a Council exercising the statutory powers and functions of an institutional governing body. During this period also, a Company Limited by Guarantee, established jointly by the Councils of The Victoria University of Manchester and of UMIST, was acting as the legal embodiment of the then putative new institution and, under powers delegated to it from time to time by the Councils, was authorised to make appointments and enter into contracts, undertakings and arrangements in the name of The University of Manchester.

The University of Manchester operates under the terms of a Royal Charter granted in 2004, and it is also an exempt charity under Section 3 of the Charities Act 1993. The University enjoys substantial authority to determine and direct its own affairs, and, in particular, has the freedom to determine the scope of its teaching and research activity. However, universities receive a substantial element of their funding from public funds allocated principally through the Higher Education Funding Councils. The conditions attached to grants from the Higher Education Funding Council for England (HEFCE) are set down in a Financial Memorandum between HEFCE and the University.

The University of Manchester, like other public bodies, has a duty to conduct its affairs in a responsible and transparent way, and to take into account in so doing the requirements of funding bodies, the standards in public life enunciated by the Nolan Committee and the recommendations of the Dearing Inquiry into Higher Education, informed by the subsequent guidance on good practice in university governance set out by the Committee of University Chairmen (most recently in 2004). The new University's corporate governance arrangements have been established in such a way as to conform with these duties.

In addition, the University corporately, through its arrangements for governance, is committed in a demonstrable way to the principles of academic freedom and equality of opportunity which are embodied in its Charter and Statutes.

Summary of the University's structure of corporate governance

The University's overarching Mission is to make the institution, already an internationally distinguished centre of research, innovation, learning and scholarly inquiry, one of the leading universities in the world by 2015. International-quality research, together with high-quality teaching, spanning a wide spectrum of disciplines, are regarded as the central elements of its overall activity, and academic and financial strategic planning is focused on the achievement of this Mission.

The Charter and Statutes provide for and empower 'authoritative bodies' within the University, each of which has a distinct role to play in the structure of governance. These include:

The **Board of Governors**, which, as the University's governing body, carries the ultimate responsibility for the University's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. It meets formally four or five times in each academic year. The membership of 25 has a majority of persons who are not employed by the University (the 'lay' members), with the Chairman being appointed from within this category of the membership. Members of the Senate (see below), members of the support staff and a student also serve on the Board. A Nominations Committee makes recommendations to the General Assembly (see below) in respect of vacancies occurring in the category of co-opted General Assembly membership, and to the Board of Governors with respect to vacancies occurring in the lay category of Board membership and in the category of General Assembly lay membership appointed by the Board.

The Board has appointed an **Audit Committee**, a **Finance Committee**, a **Risk Committee**, a **Remuneration Committee**, and a **Nominations Committee** which report directly to it, and has also established processes which ensure both that it is kept regularly advised on the strategic and policy elements of estates, personnel and health and safety issues, and that it can act effectively and in an informed way with respect to these matters when it is required to do so. It is a specific role of the Board to satisfy itself that work being undertaken on its behalf, whether by committees or by officers, is consistent with corporate objectives and is within the bounds of accepted good practice.

The **Senate**, the University's principal academic authority, is ultimately responsible for academic strategy, teaching and examination arrangements, and for the promotion of research. It is the final arbiter on purely academic matters, and it is this

autonomy of academic governance which sets higher education institutions apart from other corporate entities. To be effective, the process of academic governance must be subject to self-regulation by the academic community within the institution and be protected from other influences. A large number of the statutory powers reserved to Senate are 'regulatory' in nature and control the academic business of the University. However, regulatory functions have to be carried out within clearly-defined policy frameworks, which themselves have to be underpinned by a corporate academic Mission. This is Senate's business, as are the academic plans which support the achievement of the Mission, but the planning strategies which are developed to implement academic plans, as well as having academic rationale, must also conform to the overall institutional strategy. Although this is underpinned by academic considerations, it also has financial, physical and personnel elements which are the ultimate responsibility of the Board of Governors as governing body. Thus, if the academic decisions of the Senate carry resource implications of any sort, the approval of the Board is also required. In practice, matters such as the resourcing of academic plans and strategic planning are considered by a Planning and Resources Committee (a management committee). The Senate has 66 members including, *ex officio*, those having academic management responsibilities centrally and in the Faculties, members (professorial and non-professorial) elected by the Faculties, and student representatives.

The impact of the University on the City of Manchester and the region is considerable. It is a broad one, covering not only the measurable elements of finance and employment generation, but also the wider cultural aspects of local and regional life. This level of activity and influence brings with it responsibilities to local and regional communities which have to be recognised and assessed in the context of the fulfilment of the primary purposes of higher education institutions. Thus, provision is made within the arrangements for governance for the involvement of independent or 'lay' members in the work of the Board of Governors (as has been mentioned) and of the **General Assembly**, which is the body providing the interface between the University and the wider community. It is a much larger body (200+ members) than the Board, and both the Board and General Assembly are constituted so as to have a majority of lay members. Lay members are drawn from a wide range of local, regional and national interests, with particular attention being paid to the importance of strong and effective links with industry and commerce, and together they contribute to the University a wealth of

experience and expertise from differing perspectives. The General Assembly is the forum where legitimate interests in the affairs of the University can be heard, and is the medium through which the University can present itself and its achievements to its broader 'constituencies'. It has no executive authority in an operational sense, but it does enjoy important rights of scrutiny which provide the checks and balances on how the University functions. The General Assembly includes University staff and students within its membership.

The **Alumni Association** is the body of the University's graduates, and has the function of promoting fellowship among graduates and helping them to keep in touch with the University by providing opportunities to take an interest in its development and ongoing activities. General Meetings of the Association are held annually, and the business between Annual General Meetings is conducted by an elected committee. Elections are held at AGMs of twenty members to serve on the General Assembly and of one person for nomination to serve on the Board.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments (c.10,500) form the constituency for the election of the **Chancellor** who is the ceremonial Head of the University presiding over meetings of the General Assembly and over congregations of the University for the conferment of degrees.

The **President and Vice-Chancellor** is the chief executive officer and the principal academic and administrative officer of the University. In fulfilment of these functions the President and Vice-Chancellor has overall responsibility for the executive management of the University and for its day-to-day direction, being accountable to the Board of Governors for the exercise of these responsibilities and (as the designated Accounting Officer) to HEFCE for the use of the public funds which have been allocated. In this capacity the President and Vice-Chancellor can be summoned to appear before the Public Accounts Committee of the House of Commons. As the chief executive officer of the University, the President and Vice-Chancellor exercises considerable influence on the development of institutional policy and strategy, the identification and planning of new developments and the shaping of institutional ethos. The **Vice-Presidents** and the senior administrative officers all contribute in various ways to this aspect of the work, in particular acting as a **Senior Management Team**, but the ultimate executive responsibility rests with the President and Vice-Chancellor.

The function of the University Administration is to support the primary institutional objectives in respect of teaching and research and to implement the policy decisions of Senate and the Board. Through the provision of specialist expertise, it also contributes to and advises on the formulation of University policy. The Head of the Administration is the **Registrar and Secretary**, who is the Secretary to the Board of Governors and is also responsible for providing secretarial services for the General Assembly and Senate.

The University maintains a Register of Interests of members of the Board of Governors, which may be consulted by arrangement with the Registrar and Secretary. Members of the Board receive a reminder in the papers for each meeting of the need to declare any interest they may have in relation to the specific business to be transacted.

Statement on risk management

The duties conferred upon the Board of Governors by the University's Charter and Statutes require it to institute and maintain a sound system of internal control which both supports the achievement by the University of its aims and objectives and safeguards public and other funds and assets for which it is responsible. In that context, the Board is satisfied that the University complies with those provisions of the Combined Code of Best Practice on the financial aspects of corporate governance which are applicable in a higher education institution. Guidance provided by the Turnbull Committee on a risk management approach to internal control of institutional activity, as mediated by HEFCE in the Accounts Direction, has been adopted by the Board as the basis for evaluating the University's systems of internal control and for reviewing its effectiveness.

Given that the new University was established only on 1 October 2004, the ten month period up to 31 July 2005 represents less than a full financial year and, as the first period in the new University's existence, has been transitional in nature, with new policies and procedures having been developed and refined as the period progressed. In relation to risk management, this process of development has encompassed compliance arrangements. Although adequate transitional systems were adopted by the Board on 1 October 2004, based on those which were in existence at either or both of UMIST and The Victoria University of Manchester, new systems and procedures have been developed and implemented during the period, including a requirement on the part of the Board for all major decision-making to include an assessment of the relevant risks. This allowed a systematic evaluation of the legacy systems for

the new University with its different structures and strategy. The Board was satisfied, however, that appropriate internal controls were utilised, based on the legacy systems, for the relevant transitional period.

During the ten month period a system has been adopted by the Board, which is designed to manage rather than eliminate risk and to provide reasonable but not absolute assurance of effectiveness. The Board recognises that some risks will always exist. The knowledge that such risks exist is itself a key element in the risk management process of the University. In addition, in order to exercise the responsibility associated with risk awareness/management, the necessary support, assistance and commitment of management at all levels in the University is required and is provided. This commitment is critical in that all staff need both to be aware of the nature of the risks associated within their area of authority and to accept responsibility for their identification and their control. Staff need the assurance that the necessary support, assistance and commitment of the senior management of the University will be provided to them when this responsibility is being properly exercised.

The risk management objectives of the University listed below are based on the overarching policy to adopt best practice in the identification, evaluation and cost-effective control of risks in order that the risks associated with the University's strategy, as set out in its Strategic Plan *'Towards Manchester 2015'*, are eliminated and/or reduced to an acceptable level. The policy includes the following key actions:

- the integration of risk awareness into the culture of the University;
- the management of risk in accordance with best practice;
- the anticipation and appropriate response to risks emerging/associated with changing social, environmental and legislation requirements; and
- the reduction of the costs of risk by taking appropriate steps to mitigate injury and damage to individuals and assets of the University.

The objectives are being achieved by:

- the establishment of a framework which assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy;
- the review of the framework by a Risk Committee of the Board;
- identification by senior management of systems to assist in achieving appropriate compliance;

- the evaluation of risks inherent in all plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and control such risks;
- the adoption and dissemination, on a continual basis, of risk awareness/management training; and
- the preparation of contingency plans in areas where there is a potential for an occurrence having a catastrophic effect on the University and its business capability.

In addition to the above, the Board and the senior management of the University agreed during the ten month period that a number of actions be taken, including:

- a Planning and Accountability Conference to be held each February to review the strategic plans and direction of the University, thereby allowing the Board to review performance and raise questions, arising from the key performance indicators, with the senior management of the University;
- regular reports, at each meeting of the Board, to be received from the Audit Committee concerning internal control, including progress reports on key projects, and from the Risk Committee on the steps being taken to manage risks across the University; and
- the Audit Committee to receive regular reports from the Head of the Internal Audit Service, which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control, together with any recommendations for improvement.

The Board, in the course of the ten-month period, also:

- adopted a Risk Management Framework to underpin the Risk Management Policy already in place, details of which were circulated to University staff;
- drew up and recorded the key risks facing the University in order to ensure that actions to manage them had been, and would continue to be, developed; and
- established, where necessary, *ad hoc* due diligence groups for key projects.

In summary, the following components of a robust approach to risk management have been, and continue to be, developed. The components are:

- a Risk Committee of the Board;
- a Risk Management Policy;
- a Risk Management Framework and process, including guidance;
- a high-level risk register derived from the University's strategy document, '*Towards Manchester 2015*';
- resources to support the risk management process, including the identification of a University Risk Officer;
- a University Emergency Incident Plan, which includes major incident reporting and monitoring;
- a clearly articulated governance framework for the oversight of a best-practice approach to Health and Safety; and
- Health and Safety policies, procedures and guidance.

The Board's review of effectiveness of the system of internal control was informed by all these processes, and by comments made by the external auditors in their management letter and by internal audit reports.

Between 1 October 2004 and 31 July 2005, the Board:

- has recognised the timetable adopted in the development of the arrangements since the creation of the new University;
- recognising the need to review legacy systems and to enhance and replace such systems to meet the requirements and structures of the new institution, has agreed that the first full year of operation would occur in the 2005/06 financial year; and
- is to enhance further the risk management process by establishing a Risk and Emergency Management Group (as a sub-group of the Planning and Resources Committee), to ensure:
 - that policies and procedures are in place in the main operational areas of the University to develop an awareness of the need for risk management in order to eliminate, mitigate or control risks facing these areas;
 - that such policies and procedures are operating effectively through a process of monitoring and audit;
 - that such monitoring should pay particular attention to key areas of activity such as Emergency Management Planning (particularly in respect of serious incidents) and the operational management of Health and Safety; and
 - that the University actively promotes best practice in managing and controlling risk, including reduction, transfer, toleration and termination.

Statement of the Board of Governors' responsibilities

In accordance with the Royal Charter, the Board of Governors of The University of Manchester ('the Board') is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of The University of Manchester and which enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Statement of Recommended Practice: Accounting for Further and Higher Education, and applicable UK law and accounting standards, as well as reflecting current best practice in public sector corporate governance. In addition, under the terms and conditions of a Financial Memorandum agreed with HEFCE in respect of The University of Manchester, the Board, through its designated office-holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the institutional surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable United Kingdom law and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that The University of Manchester will continue in operation. The Board is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- ensure that funds from HEFCE and the Teacher Training Agency are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and any other terms and conditions which HEFCE may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds from other sources;
- safeguard the assets of The University of Manchester and to prevent and detect fraud; and
- secure the economical, efficient and effective management of The University of Manchester's resources and expenditure.

Independent auditors' report to the Board of Governors of The University of Manchester

We have audited the financial statements which comprise the consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the statement of principal accounting policies.

Respective responsibilities of the Board of Governors and auditors

The Board of Governors' responsibility for preparing the financial statements in accordance with the Royal Charter of the University, Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the financial memorandum with HEFCE, the Statement of Recommended Practice: Accounting for Further and Higher Education, and applicable United Kingdom law and accounting standards is set out in the Statement of the Board of Governors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, HEFCE's Code of Practice and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Board of Governors of the University in accordance with the Charter and Statutes of the University and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether, in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum (03/54) with the HEFCE. We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only: the operating and financial review, the corporate governance statement and the statement of the Board of Governors' responsibilities.

We also review the statement of internal control included as part of the corporate governance statement and comment if the statement is inconsistent with our knowledge of the University. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the University and the Group at 31 July 2005, and of the deficit of income over expenditure, recognised gains and losses and cash flows of the group for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- ii. in all material respects, income from the HEFCE and the Teacher Training Agency, grants and income for specific purposes and

from other restricted funds administered by the University have been applied only for the purposes for which they were received;

- iii. in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memorandum (03/54) with the HEFCE.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered
Auditors
Manchester
7 December 2005

The maintenance and integrity of The University of Manchester website is the responsibility of the Board of Governors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Royal Charter, the Accounts Direction issued by HEFCE, the financial memorandum agreed with HEFCE, the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable United Kingdom law and accounting standards. The accounting policies detailed below have been applied consistently.

Basis of accounting

(a) Modified historical cost basis

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and investments.

(b) Merger accounting

The financial statements have been prepared under merger accounting principles as set out in FRS 6 'Acquisitions and Mergers', in relation to the merger of The Victoria University of Manchester (VUM) and The University of Manchester Institute of Science and Technology (UMIST) into the new University of Manchester. Under merger accounting the results and cash flows of the two entities have been combined from the beginning of the financial year in which the merger occurred, that is the financial year to 31 July 2005, and for all prior periods. The income and expenditure account, balance sheet and cash flow comparative figures have all been stated on the combined basis.

The principal components of the current and prior year income and expenditure account and statement of total recognised gains and losses, analysed between the parties to the merger up to the date of merger and the merged entity after the merger date are shown in note 39 'Merger accounting'.

The process of aligning policies and presentation across the new University has resulted in investments previously held at cost being recorded in the balance sheet at the lower of cost and net realisable value.

(c) Adoption of FRS 17 'Retirement Benefits'

FRS 17 has been adopted in full for the year ended 31 July 2005 and comparative periods have been restated accordingly.

Basis of consolidation

The consolidated financial statements include the financial statements of the University and subsidiary undertakings for the financial year to 31 July as disclosed in note 13 'Investments within fixed assets'. In accordance with FRS 2 'Accounting for subsidiary undertakings', the student union has not been consolidated because the University does not control its activities. Associates have been consolidated using equity accounting, and joint ventures have been consolidated using gross equity accounting.

Recognition of income

Recurrent grants from HEFCE are recognised in the year in which they are receivable.

Non-recurrent grants from HEFCE or other bodies received in respect of acquisition of fixed assets are treated as deferred capital grants and amortised to income in line with depreciation over the life of the assets.

Income from tuition fees is included in the year in which it is earned.

Income from research grants and contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs.

All income from investments within current assets is credited to the income and expenditure account in the year in which it is earned.

Income from specific endowments is credited to the income and expenditure account on a receivable basis. Any income earned in excess of that applied to the specific purpose is transferred from the income and expenditure account to specific endowments in the balance sheet after the result for the year has been struck.

All other income is credited to the income and expenditure account in the year in which it is earned.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Tangible fixed assets

(a) Land and buildings

Land and buildings are stated at cost. Buildings are depreciated over their expected useful lives of 50 years, and leasehold buildings over the life of the lease.

Buildings under construction are included at cost, based on the value of architects' certificates and other costs incurred at 31 July. They are not depreciated until they are brought into use.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised where appropriate and depreciated over their

expected useful economic life to the University of 20 years, or less if the leasehold is shorter.

Certain fixed assets were revalued prior to the implementation of FRS 15 'Tangible fixed assets'. The transitional rules set out in FRS 15 have been applied, and accordingly the book values at implementation have been retained.

(b) Equipment

Equipment costing less than £25,000 per individual item or group of related items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its expected useful economic life as follows:

Boilers, building plant and scientific equipment
- 10 years

Main frame computers and proprietary software
- 5 years

Motor vehicles and other general equipment
- 4 years

Equipment acquired for specific research projects
- project life (generally 3 years)

(c) Grant-funded tangible fixed assets

Where tangible fixed assets within the categories (a) and (b) above are purchased with the aid of specific grants they are capitalised and depreciated in line with the accounting policy. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful life of the related asset.

(d) Tangible donated fixed assets

Tangible donated fixed assets are capitalised at market value with the corresponding amount being credited to the revaluation reserve. The assets are depreciated over their estimated useful lives, generally consistent with the lives detailed above. A corresponding amount is released each year from the revaluation reserve through the income and expenditure account into general reserves.

(e) Impairment

A review for impairment of a tangible fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the tangible fixed asset may not be recoverable.

(f) Maintenance

The full cost of repairs and routine corrective maintenance on tangible fixed assets are charged against revenue in the year in which they are incurred.

Statement of principal accounting policies (continued)

Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease.

Depreciation on leased assets is charged to income and expenditure on that same basis as for owned fixed assets. The excess of lease payments over recorded lease obligations is treated as a finance charge and amortised over each lease term to give a constant rate of change on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal amounts over the periods of the leases.

Goodwill and intangible assets

Goodwill arising on consolidation is capitalised and amortised over its useful life.

Intangible assets are recorded at cost and amortised over their expected useful life.

Investments and endowment assets

Investments within fixed assets are carried at historical cost, valuation or market value, less any provision for impairment in their value. Endowment asset investments are carried at market value. Current asset investments and investments in companies set up so as to exploit university intellectual property are carried at the lower of cost and net realisable value.

Appreciation/depreciation in the market value of investments within fixed assets is added to or subtracted from the revaluation reserve and any profit or loss on realisation is brought into the income and expenditure account.

Appreciation/depreciation in the market value of endowment assets and any profit or loss on realisation is added to or subtracted from the capital funds concerned and is not brought into the income and expenditure account.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Pension schemes

The three principal schemes for the University's staff are the Universities' Superannuation Scheme ('USS'), the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme ('MILGPS'). All are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. Each fund is valued every three years by professionally qualified independent actuaries. A small number of staff remain in other pension schemes.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS17, except for the USS, a multi-employer scheme, for which contributions are charged directly to the income and expenditure account as if the scheme were a defined contribution scheme. The remaining schemes' assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax. The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Cash flow and liquid resources

Cash flows comprise increases or decreases in cash in hand, deposits repayable on demand, and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources include term deposits, government securities, loan stock, and other instruments held as part of the University's treasury management activities. They exclude any assets held within endowment asset investments.

Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Agency arrangements

The University acts as an agent for the collection and subsequent payment of Access Funds and Training Bursaries. The related income and expenditure is excluded from the consolidated income and expenditure account. Details are disclosed within note 38 'Funds held by the University which are excluded from the income and expenditure account'.

Consolidated income and expenditure account for the year ended 31 July 2005

	Notes	Consolidated Restated 2005 £000	2004 £000
Income			
Funding Council grants	1	164,263	157,723
Tuition fees and education contracts	2	118,440	113,930
Research grants and contracts	3	130,882	116,412
Other operating income	4	114,061	115,892
Endowment and investment income	5	14,158	12,495
Less: share of joint venture's income	13	(1,824)	(1,788)
Total income		539,980	514,664
Expenditure			
Staff costs	6	311,796	294,196
Depreciation	11	20,166	18,175
Other operating expenses	7	202,792	183,466
Interest payable	8	6,290	6,223
Total expenditure		541,044	502,060
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation		(1,064)	12,604
Share of operating (deficit)/surplus in joint venture	13	(16)	33
Share of operating surplus/(deficit) in associated undertakings		18	(57)
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and before exceptional items and taxation		(1,062)	12,580
Exceptional items	10	(8,883)	(9,881)
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation		(9,945)	2,699
Taxation	9	109	(468)
(Deficit)/surplus on continuing operations after depreciation of assets at cost/valuation, exceptional items and taxation		(9,836)	2,231
Minority interest in subsidiary undertakings' profits for the year	26	-	(92)
Transfers (to)/from accumulated income within specific endowments	23	(16)	1,443
(Deficit)/surplus for the year transferred to general reserves		(9,852)	3,582

The consolidated income and expenditure account is in respect of continuing activities.

Consolidated statement of historical cost surpluses and deficits for the year ended 31 July 2005

	Notes	2005 £000	Restated 2004 £000
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation		(9,945)	2,699
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	24	192	320
Historical cost (deficit)/surplus for the year before taxation		(9,753)	3,019
Historical cost (deficit)/surplus for the year retained after taxation, exceptional items and transfers in respect of specific endowments		(9,660)	3,902

Consolidated statement of total recognised gains and losses for the year ended 31 July 2005

	Notes	2005 £000	Restated 2004 £000
(Deficit)/surplus for the year retained within general reserves		(9,852)	3,582
Unrealised surplus on revaluation of donated assets	24	165	224
Unrealised surplus on revaluation of investments within fixed assets	24	18,552	20
Net appreciation of endowment assets including reinvested profits on sales	23	23,048	2,163
New endowments less realisations	23	1,088	3,039
Specific and general endowment income received	23	3,585	3,201
Specific and general endowment income released to income and expenditure account	23	(3,569)	(4,644)
Actuarial (loss)/gain recognised in the pension scheme	34	(8,416)	6,626
Total recognised gains relating to the year		24,601	14,211
Prior year adjustment	25	(22,398)	
Total gains recognised since last published financial statements		2,203	
Reconciliation			
Opening reserves and endowments		251,695	237,484
Total recognised gains for the year		24,601	14,211
Closing reserves and endowments		276,296	251,695

Balance Sheets as at 31 July 2005

	Notes	Consolidated		University	
		2005 £000	Restated 2004 £000	2005 £000	Restated 2004 £000
Fixed assets					
Tangible assets	11	366,388	283,160	339,227	270,886
Intangible assets	12	83	682	-	-
Investments	13	71,361	50,372	80,339	59,769
		437,832	334,214	419,566	330,655
Endowment assets	14	122,711	98,559	122,711	98,559
Current assets					
Stocks		1,745	1,762	1,732	1,599
Debtors: amounts falling due within one year	15	96,186	70,224	93,532	67,529
Debtors: amounts falling due after more than one year	16	410	541	8,395	2,926
Investments	17	39,285	77,399	39,285	77,399
Cash at bank and in hand		5,422	14,024	1,528	9,911
		143,048	163,950	144,472	159,364
Creditors: amounts falling due within one year	18	(132,134)	(112,439)	(128,791)	(109,386)
NET CURRENT ASSETS		10,914	51,511	15,681	49,978
TOTAL ASSETS LESS CURRENT LIABILITIES		571,457	484,284	557,958	479,192
Creditors: amounts falling due after more than one year	19	(87,339)	(64,806)	(87,339)	(64,507)
Provisions for liabilities and charges	21	(2,693)	(2,743)	(2,210)	(2,308)
NET ASSETS EXCLUDING PENSION DEFICIT		481,425	416,735	468,409	412,377
Pension deficit	34	(22,234)	(14,153)	(21,156)	(13,457)
NET ASSETS INCLUDING PENSION DEFICIT		459,191	402,582	447,253	398,920
Deferred capital grants	22	182,927	150,584	165,859	142,734
Endowments					
Specific endowments	23	115,384	92,998	115,384	92,998
General endowments	23	7,327	5,561	7,327	5,561
		122,711	98,559	122,711	98,559
Reserves					
Revaluation reserve	24	26,713	8,188	26,713	8,188
General reserve	25	126,872	144,948	131,970	149,439
		153,585	153,136	158,683	157,627
Minority interests	26	(32)	303	-	-
TOTAL FUNDS		459,191	402,582	447,253	398,920

The Financial Statements on pages 25 to 63 were approved by the Board of Governors of The University of Manchester on 7 December 2005 and were signed on its behalf by:

Norman B M Askew
Chair of the Board of Governors

Professor Alan D Gilbert
President and Vice-Chancellor

Geoffrey Hope-Terry
Director of Finance

Consolidated cash flow statement for the year ended 31 July 2005

	Notes	2005 £000	Restated 2004 £000
Cash (outflow)/inflow from operating activities	27	(8,030)	28,138
Returns on investments and servicing of finance	28	4,210	2,434
Taxation		-	(339)
Capital expenditure and financial investment	29	(65,274)	(18,650)
Management of liquid resources	30	38,114	930
Financing	31	22,459	(6,268)
(Decrease)/increase in cash in the year		(8,521)	6,245

Reconciliation of net cash flow to increase in net (debt)/funds for the year ended 31 July 2005

	Notes	2005 £000	Restated 2004 £000
(Decrease)/increase in cash in the year		(8,521)	6,245
Cash inflow from liquid resources	30	(38,114)	(930)
Change in debt resulting from cash flows	31	(22,459)	6,268
Movement in net (debt)/funds in year	32	(69,094)	11,583
Net funds at beginning of year		36,911	25,328
Net (debt)/funds at year end	32	(32,183)	36,911

Notes to the financial statements

1 Funding Council grants	Consolidated	
	2005 £000	2004 £000
Recurrent grant - teaching	83,633	77,036
Recurrent grant - research	60,609	58,052
Recurrent grants - other	9,145	8,294
Special Initiatives	6,300	10,190
Releases of deferred capital grants from Funding Council sources	2,808	2,686
Teacher Training Agency - recurrent grant	1,768	1,465
	164,263	157,723
2 Tuition fees and education contracts	Consolidated	
	2005 £000	2004 £000
Fees in respect of:		
Full time students charged home fees	32,448	31,275
Full time students charged overseas fees	45,885	45,947
Part time students	6,542	6,480
Short course fees	14,284	12,238
Other teaching contract courses - core activities	15,973	15,541
Research training support grants	3,308	2,449
	118,440	113,930
3 Research grants and contracts	Consolidated	
	2005 £000	2004 £000
Research Councils	51,143	47,309
UK based charities	26,541	27,074
UK central government, hospitals and health authorities	31,350	19,695
UK industry and commerce	7,851	8,551
Overseas	12,307	12,653
Other sources	1,690	1,130
	130,882	116,412
4 Other operating income	Consolidated	
	2005 £000	2004 £000
Residences, catering and conferences	39,060	39,708
Premises	197	491
Use of sports facilities	603	538
Academic departments	10,557	8,881
Academic services	5,339	5,311
Continuing education and training	3,227	4,526
Administration and central services	9,043	6,368
Services rendered	14,840	23,963
Health authorities	9,002	6,670
Other general income	11,531	9,233
Subsidiary undertakings - other general income	4,545	4,384
Profit on disposal of subsidiaries	501	1,523
Manchester University Press	1,658	1,569
Releases of deferred capital grants from non-Funding Council sources	2,613	1,378
Dividends from general fund investments	1,345	1,349
	114,061	115,892

5 Endowment and investment income

	Consolidated	
	2005	Restated 2004
	£000	£000
Income from specific endowments (note 23)	3,333	3,423
Income from general endowments (note 23)	252	243
Income from donations	468	593
Income from short term investments	5,449	3,729
Surplus on realisation of long term investments	1,266	964
Pension finance interest	3,243	3,221
Other interest receivable	147	322
	14,158	12,495

6 Staff costs

	Consolidated	
	2005	Restated 2004
	£000	£000
Wages and salaries	260,923	244,646
Social security costs	21,413	19,430
Other pension costs	29,460	30,120
	311,796	294,196

Costs in relation to Distinction Awards paid to NHS Consultants employed on joint contracts between the NHS and the University not borne by the University

3,596 3,109

Staff numbers

	Consolidated	
	2005	2004
	Numbers	Numbers
Academic	1,931	1,897
Research	1,504	1,433
Technical	719	724
Administrative and other related	1,769	1,642
Other including clerical and manual	2,934	2,694
Total number of staff	8,857	8,390

The staff numbers disclosed above relate to full-time equivalents and are stated as at 31 July.

6 Staff costs (continued)

Remuneration of higher paid staff, excluding employer's pension contributions, were within the following ranges. Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are included within remuneration.

	Consolidated Number of employees 2005	Number of employees 2004
£70,000 - £80,000	95	84
£80,001 - £90,000	44	35
£90,001 - £100,000	35	14
£100,001 - £110,000	18	24
£110,001 - £120,000	17	3
£120,001 - £130,000	15	14
£130,001 - £140,000	13	8
£140,001 - £150,000	6	8
£150,001 - £160,000	3	2
£160,001 - £170,000	1	-
£170,001 - £180,000	2	1
£180,001 - £200,000	-	-
£200,001 - £210,000	1	-
£210,001 - £220,000	-	1
£220,001 - £250,000	-	-
£250,001 - £260,000	1	-

Emoluments of the President and Vice-Chancellor (The University of Manchester)

	Consolidated 12 months to 31 July 2005 £000	6 months to 31 July 2004 £000
Salary	246	110
Benefits in kind	10	-
	<hr/> 256	<hr/> 110

Emoluments of the Vice-Chancellor (The Victoria University of Manchester)

	2 months to 30 September 2004 £000	12 months to 31 July 2004 £000
Salary	47	164
Benefits in kind	2	9
	<hr/> 49	<hr/> 173
Pension contributions	5	25
	<hr/> 54	<hr/> 198

Emoluments of the Vice-Chancellor (UMIST)

	22	129
Salary	22	129
Benefits in kind	-	-
	<hr/> 22	<hr/> 129
Pension contributions	3	18
	<hr/> 25	<hr/> 147

The President and Vice-Chancellor (Designate) of The University of Manchester was appointed on 16 February 2004. He took up the position of President and Vice-Chancellor of The University of Manchester on 1 October 2004. The Vice-Chancellors of the legacy universities retired from their posts on 30 September 2004.

The emoluments of the President and Vice-Chancellor include a special payment in respect of pension contributions of £30,000 (2004 - £14,000). The University does not pay any other pension contributions on behalf of the President and Vice-Chancellor.

The emoluments of the Vice-Chancellors (VUM and UMIST) are shown on the same basis as for higher paid staff. The University's pension contributions to Universities' Superannuation Scheme on behalf of the Vice-Chancellors were paid at the same rates as for other staff.

The Chair of the Board of Governors and Pro-Chancellor has waived his right to fees in respect of the year.

7 Other operating expenses

	Consolidated	
	2005	2004
	£000	£000
Academic expenditure	53,314	47,415
Central libraries and information services	7,045	6,229
Central computers and computer networks	4,224	4,093
Other academic services	1,540	1,373
Administration and central services	7,302	9,689
Auditors' remuneration: external audit fees	83	-
- PricewaterhouseCoopers LLP (University audit)	5	-
- PricewaterhouseCoopers LLP (Group audit)	114	141
- Other	74	-
Auditors' remuneration: non-audit services	67	175
- PricewaterhouseCoopers LLP	100	125
- Other	8,553	8,633
Internal auditors' remuneration	4,879	4,292
General educational expenditure	3,837	2,814
Staff and student facilities	6,270	4,507
Rents and rates	20,726	20,291
Heat, light, water and power	4,676	3,164
Repairs and general maintenance	19,706	19,089
Other premises expenditure	51,022	40,929
Residences and catering operations	4,491	6,470
Research grants and contracts	2,287	1,966
Other services rendered	2,477	2,071
Other operating expenditure	202,792	183,466
Subsidiary undertakings - other operating expenditure	1,532	

Amounts paid under operating leases (included within the relevant categories above)

8 Interest payable

	Consolidated	
	2005	2004
	£000	£000
Bank and other loans wholly repayable within five years	11	96
Loans not wholly repayable within five years	6,279	6,127
	6,290	6,223

9 Taxation

	Consolidated	
	2005	2004
	£000	£000
Deferred tax	(115)	375
Corporation tax on current year profits of subsidiary companies	4	101
Corporation tax on previous year profits of subsidiary companies	2	(8)
	(109)	468

10 Exceptional items

	Consolidated	
	2005	2004
	£000	£000
Expenditure		
Merger costs	7,699	7,007
Voluntary severance	7,408	2,874
	15,107	9,881
Income		
Profit on disposal of tangible fixed assets	(2,455)	-
Profit on disposal of fixed asset investments	(3,769)	-
	(6,224)	-
	8,883	9,881

The exceptional expenditure in the consolidated income and expenditure account relates to expenditure incurred as a result of the merger between the Victoria University of Manchester and UMIST.

11 Tangible fixed assets

	Land and buildings £000	Lease premium £000	Assets under construction £000	Equipment £000	Total £000
a) Consolidated					
Cost/valuation					
At beginning of year	296,462	-	30,992	111,363	438,817
Additions at cost	8,275	-	71,678	24,569	104,522
Disposals	(1,548)	-	-	(1,688)	(3,236)
At year end	303,189	-	102,670	134,244	540,103
Depreciation					
At beginning of year	69,628	-	-	86,029	155,657
Charge for the year	6,705	-	-	13,461	20,166
Disposals	(868)	-	-	(1,240)	(2,108)
At year end	75,465	-	-	98,250	173,715
Net Book Value					
At year end	227,724	-	102,670	35,994	366,388
At beginning of year	226,834	-	30,992	25,334	283,160
b) University					
Cost/valuation					
At beginning of year	284,507	5,400	24,946	108,194	423,047
Additions at cost	8,275	-	56,302	24,335	88,912
Disposals	(1,548)	-	-	-	(1,548)
At year end	291,234	5,400	81,248	132,529	510,411
Depreciation					
At beginning of year	68,277	444	-	83,440	152,161
Charge for the year	6,422	74	-	13,395	19,891
Disposals	(868)	-	-	-	(868)
At year end	73,831	518	-	96,835	171,184
Net Book Value					
At year end	217,403	4,882	81,248	35,694	339,227
At beginning of year	216,230	4,956	24,946	24,754	270,886

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

Buildings with a net book value of some £143 million (2004 - £118 million) and cost of £132 million (2004 - £109 million) have been funded by Her Majesty's Treasury. Should these particular buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with HEFCE.

Land and buildings with a net book value of £21.3 million are the subject of security granted in respect of certain bank loans as disclosed in note 20 to the financial statements.

Certain amounts brought forward at 1 August 2004 have been reanalysed between assets under construction and land and buildings, as disclosed within note 39(e) to the financial statements.

12 Intangible assets

Consolidated	Goodwill £000	Intellectual property rights £000	Total £000
Cost			
At beginning of year	1,522	183	1,705
Disposals	(1,430)	(183)	(1,613)
At year end	92	-	92
Amortisation			
At beginning of year	872	151	1,023
Disposals	(872)	(151)	(1,023)
Charge in year	9	-	9
At year end	9	-	9
Net book value			
At year end	83	-	83
At beginning of year	650	32	682

13 Investments within fixed assets

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Movement in the year				
Balance at beginning of year	50,372	49,705	59,769	58,190
Additions	11,489	8,057	11,544	8,013
Disposals	(9,430)	(8,168)	(9,392)	(7,113)
Amounts provided on unquoted shares during the year	(1,151)	(314)	(1,151)	(347)
Net appreciation including reinvested profits on sales	20,081	1,092	19,569	1,026
Balance at year end	71,361	50,372	80,339	59,769
Analysis of closing balance				
British government securities	2,084	2,041	2,084	2,041
Other fixed interest securities	7,431	7,023	7,431	7,023
UK industrial and commercial securities	30,519	25,664	30,518	25,662
Overseas industrial and commercial securities	9,431	6,870	9,431	6,870
Unquoted shares	124	191	270	337
Property	14,945	3,288	14,945	3,288
Uninvested bank balances	644	646	644	646
Interests in subsidiary undertakings (note 13a)	50	-	11,297	11,191
Interest in joint venture (note 13b)	73	95	-	-
Interests in associated undertakings (note 13c)	2,031	1,797	-	-
Loan to Sugden Sports Trust	3,719	2,706	3,719	2,706
Other investments	307	5	-	5
Loans to associated undertakings	3	46	-	-
Total investments within fixed assets	71,361	50,372	80,339	59,769
Investments at cost	45,963	43,875	59,981	57,843

Investments within fixed assets have been restated as a result of the alignment of accounting policies following the merger. Details are disclosed within note 39(e) 'Merger accounting'.

13 Investments within fixed assets (continued)

a) Investments in subsidiary undertakings

At year end, investments in subsidiary undertakings comprise:

Directly owned Indirectly owned	Group Holding %	University		Description
		2005 £	2004 £	
Manchester Innovation Holdings Limited	100	5,143,092	5,143,000	Holding company
Manchester Innovation Limited	100	-	-	Commercial exploitation of resources
Vuman Technology Services Limited	100	-	-	Technology identification and exploitation
Manchester Technology Developments Limited	100	500,000	500,000	Holding company
Control Technology Centre Limited	100	-	-	Control technology
The Manchester Incubator Company Limited	100	-	-	Supports biotechnology ventures
UMIST Ventures Limited	100	5,538,100	5,538,100	Holding company
UVL Investments Limited	100	-	-	Assisting academics to secure research grants
UVL Management Services Limited	100	-	-	Provision of management services
Advanced Hall Sensors Limited	52	-	-	Manufacture of hall effect sensors
Internet Facilitators Limited	100	1	1	Provision of facilities for internet services
Manchester Informatics Limited	100	100	100	Provision of consultancy services
Manpharm Limited	100	1	1	Provision of consultancy services
Visual Automation Limited	100	2	2	Provision of consultancy services
Flow Science Limited	100	10,000	10,000	Provision of consultancy services
Manchester Technology Fund Limited	100	50,000	75	Fund Management
The University of Manchester Foundation	100	-	-	Fund Raising
The University of Manchester Intellectual Property Limited	100	50,000	-	Management of intellectual property
UMIST Ventures Fund Management Limited	100	5,000	-	Fund Management
UMIST Ventures Fund (General Partner) Limited	100	-	-	Dormant company
UMIST Ventures Fund (Carried Interest Partner) Limited	100	-	-	Dormant company
The University of Manchester Conferences Limited	100	2	2	Management of conference facilities
Systemcost Trading Limited	100	185	185	Design and construction company
The University of Manchester Car Parks Limited	100	96	96	Maintenance and running of a car park facility
The University of Manchester Incubator Company Limited	100	1	-	Management of University Incubator Buildings
MBS Incubator Limited	51	51	51	Provision of business support services
MBSI Portfolio Limited	100	-	-	Dormant company
Dryden Street Nursery Limited	50	-	-	Management of Dryden Street Nursery
Sugden Sports Trust	50	-	-	Ownership of sports centre
UMIST Educational Trust	100	-	-	Rental of buildings
The Incubation Partnership Limited	50	2	2	Provision of support services
Vumpine Limited	50	50	50	Dormant company
		11,296,683	11,191,665	

Certain subsidiary undertakings above are shown as having nil cost of investment. In each case these are either indirectly owned as indicated, are limited by guarantee ('CLG') or are Trusts.

Where applicable, the 'Group holding' is equivalent to the proportion of voting rights and shares held.

All the subsidiary undertakings are incorporated in England and Wales.

13 Investments within fixed assets (continued)

The following subsidiary and associated undertakings are not consolidated:

	Holding %	Reason	2005 £000	Share of Turnover £000	Share of Net assets £000
Subsidiary undertakings					
Manchester Technology Fund Limited	100	Company is not material	50	180	17
MBS Incubator Limited	51	Company is not material	-	3	(16)
Dryden Street Nursery Limited	50	Company is not material	-	224	-
Sugden Sports Trust	50	Not controlled by the University	-	163	2,836
UMIST Educational Trust	100	Entity is not material	-	575	365
The Incubation Partnership Limited	50	Company is not material	-	-	12
Vumpine Limited	50	Dormant company	-	-	-
Associated undertakings					
MNW Limited	33	Company is not material	-	54	11
WUN Foundation Limited	17	Company is not material	-	28	7
Net North West Limited	8	No significant influence	-	191	93
EDEC Multimedia Limited	25	Dormant company	-	-	-
			50		

Included within the financial statements are the following transactions with subsidiary and associated undertakings which are not consolidated:

	Income within the University £000	Expenditure within the University £000	Balance due to/(from) the University £000
Manchester Technology Fund Limited	160	157	160
UMIST Ventures Fund Management Limited	-	35	-
Dryden Street Nursery Limited	-	28	(95)
Sugden Sports Trust	160	161	3,716
UMIST Educational Trust	359	374	103

b) Investment in Joint Venture - Business & Management Education Limited

	Consolidated	
	2005 £000	2004 £000
Share of turnover of joint venture	1,824	1,788
Share of (deficit)/surplus after depreciation of fixed assets at cost/valuation and exceptional items and before taxation	(16)	33
Share of assets		
Fixed assets	101	111
Current assets	979	988
Share of liabilities due within one year	(359)	(405)
Share of liabilities due after more than one year	(648)	(599)
Share of net assets	73	95

The principal activity of Business & Management Education Limited is the provision of distance learning.

13 Investments within Fixed Assets (continued)

c) Investment in associated undertakings

The University and Group had the following associated undertakings as at 31 July 2005:

Name of associate	Class of share	Proportion held by the University	Proportion held by the Group	2005 £000	Nature of business
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	28%	28%	2,005	Assisting in the location and development of technology based businesses
Gentronix Limited Financial year end 31 December	£1 ordinary	-	24%	26	Toxicity testing for drug discovery process
Cogniscience Limited Financial year end 31 July	'A' ordinary	-	23%	-	Research of hardware support for artificial neural networks
				<u>2,031</u>	

The associated companies are accounted for using the equity method.

Additional disclosures for the associate which exceeds the 25% ownership threshold for the year ended 31 July 2005 are as follows:

	Manchester Science Park Limited £000
Share of turnover of associate	711
Share of profit before taxation	153
Share of taxation	(27)
Share of profit after taxation	126
Share of assets	
Share of fixed assets	4,627
Share of current assets	459
Liabilities due within one year	(374)
Liabilities due after more than one year	(2,707)
Share of net assets	2,005

14 Endowment assets

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Movement in the year				
Balance at beginning of year	98,559	94,800	98,559	94,800
Additions including unreleased income earned on capital	1,104	1,595	1,104	1,595
Net appreciation including reinvested profits on sales	23,048	2,164	23,048	2,164
Balance at year end	122,711	98,559	122,711	98,559
Analysis of closing balance				
British government securities	4,027	4,229	4,027	4,229
Other fixed interest securities	16,844	15,779	16,844	15,779
UK industrial and commercial securities	61,948	52,049	61,948	52,049
Overseas industrial and commercial securities	14,690	10,828	14,690	10,828
Property	9,240	409	9,240	409
Bank and building society deposits	11,664	11,247	11,664	11,247
Uninvested bank balances	4,298	4,018	4,298	4,018
Total investments within fixed assets	122,711	98,559	122,711	98,559
Investments at cost	76,685	75,581	76,685	75,581

15 Debtors: amounts falling due within one year

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade debtors	32,564	26,958	31,113	24,090
Accrued income on research grants and contracts	33,208	28,640	33,208	28,640
Prepayments and accrued income	30,151	14,626	27,477	14,121
Amounts owed by group undertakings	263	-	1,734	678
Balance at year end	96,186	70,224	93,532	67,529

16 Debtors: amounts falling due after more than one year

	Consolidated		University	
	2005 £000	Restated 2004 £000	2005 £000	Restated 2004 £000
Loan to University of Manchester Students Union	185	180	185	180
Loans to other group companies	-	-	7,985	2,385
Amounts owed by associated undertakings	225	361	225	361
Balance at year end	410	541	8,395	2,926

17 Investments

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank deposits repayable after due notice	25,535	73,499	25,535	73,499
Bank deposits repayable on demand	13,750	3,900	13,750	3,900
Balance at year end	39,285	77,399	39,285	77,399

18 Creditors: amounts falling due within one year

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank overdraft	4,088	3,474	5,582	2,699
Bank loans (note 20)	2,049	2,112	2,049	2,112
Trade creditors	10,193	12,521	10,193	11,827
Obligations under hire purchase contracts	20	31	-	-
Social security and other taxation payable	7,911	8,023	7,775	7,493
Amounts owed to subsidiary undertakings	95	-	860	318
Other creditors	17,873	16,372	14,718	16,359
Deferred income on research grants and contracts	32,603	25,969	32,603	25,969
Accruals and deferred income	57,302	43,937	55,011	42,609
Balance at year end	132,134	112,439	128,791	109,386

19 Creditors: amounts due after more than one year

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank loans (note 20)	87,339	64,507	87,339	64,507
Loans other than bank loans	-	279	-	-
Obligation under hire purchase contracts	-	20	-	-
Balance at year end	87,339	64,806	87,339	64,507

20 Borrowings

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
a) Bank loans				
Bank loans are repayable as follows:				
In one year or less	2,049	2,112	2,049	2,112
Between one and two years	2,355	1,715	2,355	1,715
Between two and five years	14,591	8,095	14,591	8,095
In five years or more	70,393	54,697	70,393	54,697
	89,388	66,619	89,388	66,619
Included within creditors: amounts falling due within one year	(2,049)	(2,112)	(2,049)	(2,112)
	87,339	64,507	87,339	64,507

Secured bank loans

Bank loans with an interest rate of 13.7%, repayable by instalments falling due between 2005 and 2014 totalling £13.7 million, are secured on the Weston Building and the Charles Street multi-storey car park.

Bank loans with an interest rate of base rate plus 0.9%, repayable by instalments falling due between 2005 and 2010 totalling £3.22 million, are secured on the Manchester School of Management Building.

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2005 and 2021 totalling £25.93 million, are secured on various student residences.

Bank loans with an interest rate of 8.4%, repayable by instalments falling due between 2005 and 2017 totalling £2.18 million, are secured on Ronson Hall.

Unsecured bank loans

Bank loans with an interest rate of 6.1% are repayable by instalments falling due between 2005 and 2026 totalling £19.36 million.

Bank loans with an interest rate of 5.2% are repayable by instalments falling due between 2008 and 2019 totalling £25 million.

20 Borrowings (continued)

b) Hire purchase loans

Hire purchase loans are repayable as follows:

In one year or less
Between one and two years

Consolidated		University	
2005	2004	2005	2004
£000	£000	£000	£000
20	31	-	-
-	20	-	-
20	51	-	-

The hire purchase borrowings are secured on the assets to which they relate.

21 Provisions for liabilities and charges

a) Consolidated

Balance at beginning of year
Utilised during the year
Transfer from income and expenditure account

Balance at year end

	Enhanced pension scheme £000	Deferred tax £000	Total £000
Balance at beginning of year	2,308	435	2,743
Utilised during the year	(200)	-	(200)
Transfer from income and expenditure account	102	48	150
Balance at year end	2,210	483	2,693

Deferred tax

The elements of deferred tax are as follows:

Difference between accumulated depreciation and capital allowances
Other timing differences

Balance at year end

2005
£000

2004
£000

620
(137)

483

373
62

435

Deferred tax has been restated within the accounts of the subsidiary to which it relates and this has been reflected in these financial statements. Details are disclosed within note 39(e), 'Merger accounting'.

b) University

Balance at beginning of year
Utilised during the year
Transfer from income and expenditure account

Balance at year end

Enhanced
pension
scheme
£000

2,308
(200)
102

2,210

Enhanced pension scheme

The enhanced pension scheme provision is in respect of future enhanced retirement benefits in relation to the Greater Manchester Pension Fund.

22 Deferred capital grants

a) Consolidated

Balance at beginning of year

	Funding Council £000	Other grants £000	Total £000
Buildings	58,602	83,726	142,328
Equipment	4,325	3,931	8,256
Total	62,927	87,657	150,584

Grants received/receivable

Buildings	9,557	24,008	33,565
Equipment	1,053	6,619	7,672
Total	10,610	30,627	41,237

Released to income and expenditure

Buildings	1,367	1,904	3,271
Equipment	1,460	4,163	5,623
Total	2,827	6,067	8,894

Balance at year end

Buildings	66,792	105,830	172,622
Equipment	3,918	6,387	10,305

Total	70,710	112,217	182,927
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b) University

Balance at beginning of year

	Funding Council £000	Other grants £000	Total £000
Buildings	58,602	75,876	134,478
Equipment	4,325	3,931	8,256
Total	62,927	79,807	142,734

Grants received/receivable

Buildings	9,557	14,701	24,258
Equipment	1,053	6,619	7,672
Total	10,610	21,320	31,930

Released to income and expenditure

Buildings	1,367	1,815	3,182
Equipment	1,460	4,163	5,623
Total	2,827	5,978	8,805

Balance at year end

Buildings	66,792	88,762	155,554
Equipment	3,918	6,387	10,305

Total	70,710	95,149	165,859
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23 Endowments

Consolidated and University	Specific endowments £000	General endowments £000	Total £000
Balance at beginning of year	92,998	5,561	98,559
New endowments less realisations	1,088	-	1,088
Net appreciation of endowment assets including reinvested profit on sales	21,282	1,766	23,048
Income for the year	3,333	252	3,585
Income released to income and expenditure account	(3,317)	(252)	(3,569)
Balance at year end	115,384	7,327	122,711
Representing:			
Fellowships and scholarship funds	1,373	112	1,485
Prize funds	49,392	1,944	51,336
Chairs and lectureship funds	29,243	2,377	31,620
Other funds	35,376	2,894	38,270
Total	115,384	7,327	122,711

24 Revaluation reserve

Consolidated and University	Donated assets £000	Land and buildings £000	Investments within fixed assets £000	Total £000
Revaluations				
At beginning of year	775	678	6,881	8,334
Revaluation in year	165	-	18,552	18,717
At year end	940	678	25,433	27,051
Contribution to depreciation				
At beginning of year	-	146	-	146
Released in year	179	13	-	192
At year end	179	159	-	338
Revaluation reserve At year end	761	519	25,433	26,713
At beginning of year	775	532	6,881	8,188

**25 Movement on General reserves
- Income and expenditure account**

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Balance at beginning of year	167,346	161,153	171,141	165,396
Prior year adjustment	(22,398)	(27,375)	(21,702)	(26,514)
Restated balance at beginning of year	144,948	133,778	149,439	138,882
(Deficit)/surplus retained for the year	(9,852)	3,582	(9,734)	3,898
Release from revaluation reserve	192	962	192	320
Actuarial (loss)/gain on pension scheme	(8,416)	6,626	(7,927)	6,339
Balance at year end	126,872	144,948	131,970	149,439

Prior year adjustment

The prior year adjustment relates to the implementation of FRS 17 'Retirement Benefits', the adoption of which resulted in the following movements:

	Consolidated 2005 £000	2004 £000
Increase in staff costs	(3,071)	(4,800)
Increase in pension finance income	3,243	3,221
Decrease/(increase) in tax charge	163	(70)
Increase/(decrease) in result for the year	335	(1,649)
(Decrease)/increase in total recognised gains and losses for the year	(8,081)	4,977

Analysis of prior year adjustment

	Consolidated £000	University £000
Adjustment to opening reserves as at 1 August 2003	(27,375)	(26,514)
Adjustment to income and expenditure for the year ended 31 July 2004	(1,649)	(1,527)
Adjustment to total recognised gains and losses for the year ended 31 July 2004	6,626	6,339
	(22,398)	(21,702)

26 Minority interests

	Consolidated 2005 £000	2004 £000
Balance at beginning of year	303	211
Minority interest in subsidiary undertakings' profits for the year	-	92
Minority interest's share of loss on disposals	(335)	-
Balance at year end	(32)	303

27 Reconciliation of operating (deficit)/surplus to net cash (outflow)/inflow from operating activities	Consolidated	
	2005 £000	2004 £000
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and before exceptional items and taxation	(1,062)	12,580
Exceptional items	(15,107)	(9,881)
Depreciation	20,166	18,175
Amortisation of goodwill	9	105
Loss on disposal of intangible assets	590	-
Deferred capital grants released to income	(8,894)	(10,703)
Investment income	(8,634)	(10,648)
Transfers (to)/from endowments	(16)	978
Loss on disposal of fixed assets	447	66
Interest payable	6,290	6,223
Interest receivable	(147)	(121)
Difference between pension charge and cash contributions	(172)	1,579
Decrease/(increase) in stocks	17	(39)
Decrease in long term debtors	131	10,587
(Increase)/decrease in debtors due within one year	(16,009)	2,074
Increase in creditors	13,308	10,997
Increase/(decrease) in provisions	1,053	(3,834)
Net cash (outflow)/inflow from operating activities	(8,030)	28,138

28 Returns on investments and servicing of finance	Consolidated	
	2005 £000	2004 £000
Income from endowments	3,585	3,257
Income from short term investments	5,449	3,729
Dividend income from general fund investments	1,319	1,349
Other interest received	147	322
Interest paid	(6,290)	(6,223)
Net cash inflow from returns on investments and servicing of finance	4,210	2,434

29 Capital expenditure and financial investment	Consolidated	
	2005 £000	2004 £000
Purchase of tangible fixed assets	(98,516)	(56,763)
Purchase of fixed asset investments	(11,489)	(8,057)
Purchase of endowment assets	(22,985)	(19,648)
Receipts from sale of tangible fixed assets	3,136	-
Receipts from sale of fixed asset investments	13,199	7,271
Receipts from sale of endowment assets	19,009	17,261
Deferred capital grants received	31,284	37,739
Endowments received	1,088	3,547
Net cash outflow from capital expenditure and financial investment	(65,274)	(18,650)

30 Management of liquid resources	Consolidated	
	2005 £000	2004 £000
Withdrawals from deposits	38,114	930
Net cash inflow from management of liquid resources	38,114	930

31 Financing

	Consolidated	
	2005	2004
	£000	£000
Increase in borrowings	25,000	51
Capital repayments	(2,510)	(6,319)
Capital element of hire purchase repayments	(31)	-
Net cash inflow/(outflow) from financing	22,459	(6,268)

32 Analysis of changes in net funds/(debt)

	Consolidated			
	1 August 2004	Cash flows	Non-cash	31 July 2005
	£000	£000	changes	£000
			£000	
Bank overdraft	(3,474)	(614)	-	(4,088)
Cash at bank	14,024	(8,602)	-	5,422
Uninvested bank balances - fixed asset investments	646	(2)	-	644
Endowment asset investments (note 14)	15,265	697	-	15,962
	26,461	(8,521)	-	17,940
Debt due within one year	(2,112)	2,112	(2,049)	(2,049)
Debt due after one year	(64,786)	(24,602)	2,049	(87,339)
Hire purchase amounts due within one year	(31)	31	(20)	(20)
Hire purchase amounts due after one year	(20)	-	20	-
Current asset investments	77,399	(38,114)	-	39,285
Net funds/(debt)	36,911	(69,094)	-	(32,183)

33 Cash flows relating to exceptional items

Operating cash flows include an outflow of £13.5 million in respect of expenditure incurred as a result of the merger as detailed within note 10.

Included within capital expenditure and financial investment cash flows are cash receipts of £6.9 million in relation to disposal proceeds on the sale of certain fixed assets.

34 Pension schemes

The three principal pension schemes for the University's staff are the Universities' Superannuation Scheme, the University of Manchester Superannuation Scheme and the Greater Manchester Pension Fund. In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme.

a) Universities' Superannuation Scheme ('USS')

The University of Manchester participates in the USS, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year in the income and expenditure account is therefore equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The employer contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal actuarial valuation was performed as at 31 March 2005 when the above rates were reviewed. This valuation is due to be published in December 2005.

The total USS pension cost for the University was £23.2 million (2004 : £20.1 million).

34 Pension schemes (continued)

b) University of Manchester Superannuation Scheme ('UMSS')

UMSS is a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 July 2004 and updated to 31 July 2005 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2005 %	2004 %	2003 %
Rate of increase in salaries	3.50	3.80	3.50
Rate of increase of pensions in payment and deferred pensions	2.50	2.80	2.50
Discount rate applied to scheme liabilities	5.00	5.70	5.30
Inflation assumption	2.50	2.80	2.50

The assets of the scheme and the expected rate of return were:	2005 %	2005 £000	2004 %	2004 £000	2003 %	2003 £000
Equities	7.30	170,482	7.80	144,030	7.80	127,736
Bonds	5.00	41,069	5.70	40,164	5.30	43,848
Property	7.30	15,152	7.80	7,972	7.80	7,281
Total market value of assets		<u>226,703</u>		192,166		178,865
Actuarial value of liability		<u>(237,403)</u>		(195,882)		(186,318)
Total deficit in the scheme		<u>(10,700)</u>		(3,716)		(7,453)
Related deferred tax asset		-		-		-
Net pension liability		<u>(10,700)</u>		<u>(3,716)</u>		<u>(7,453)</u>

Analysis of the amount charged to operating deficit	2005 £000	2004 £000
Current service cost	6,894	7,886
Past service cost	596	-
Total operating charge	<u>7,490</u>	<u>7,886</u>

Analysis of net return on pension scheme	2005 £000	2004 £000
Expected return on pension scheme assets	14,114	12,847
Interest on pension liabilities	<u>(11,213)</u>	<u>(9,964)</u>
Net return	<u>2,901</u>	<u>2,883</u>

34 Pension schemes (continued)

b) University of Manchester Superannuation Scheme ('UMSS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2005 £000	2004 £000
Actual return less expected return on scheme assets	21,279	673
Experience gains and losses on liabilities	8,764	-
Changes in assumptions	(37,392)	3,757
Actuarial (loss)/gain recognised in STRGL	(7,349)	4,430
Movement in deficit during the year	2005 £000	2004 £000
Deficit in scheme at beginning of year	(3,716)	(7,453)
Current service cost	(6,894)	(7,886)
Contributions	4,954	4,310
Past service cost	(596)	-
Other finance income	2,901	2,883
Actuarial (loss)/gain	(7,349)	4,430
Deficit in scheme at the year end	(10,700)	(3,716)

The updated actuarial valuation at 31 July 2005 showed an increase in the deficit from £3.7 million to £10.7 million. The University has paid contributions at the rate of 10% of members' pensionable pay over the year to 31 July 2005. It has been agreed with the Trustees that contributions for the next year will be increased to 15% of pensionable pay.

History of experience gains and losses

	2005	Year ended 31 July		
		2004	2003	2002
Difference between expected and actual return on scheme assets:				
Amount (£000)	21,279	673	(2,213)	(40,670)
Percentage of scheme assets	9%	0%	-1%	-23%
Experience gains and losses on scheme liabilities:				
Amount (£000)	8,764	-	-	4,131
Percentage of scheme liabilities	4%	0%	0%	3%
Total amount recognised in the statement of total recognised gains and losses:				
Amount (£000)	(7,349)	4,430	(24,526)	(36,539)
Percentage of scheme assets	-3%	2%	-13%	-24%

34 Pension schemes (continued)

c) Greater Manchester Pension Fund ('GMPF')

The GMPF is a separate fund within the local government pension scheme (LGPS). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The University of Manchester is a member of one of these funds, the GMPF, which is administered by Tameside District Council.

	2005	2004	2003
	%	%	%
Rate of increase in salaries	4.30	4.40	4.10
Rate of increase in pensions in payment and deferred pensions	2.80	2.90	2.60
Discount rate applied to scheme liabilities	5.00	5.80	5.50
Inflation assumption	2.80	2.90	2.60

The assets of the GMPF scheme as a whole and the expected rates of return were:	2005	2005	2004	2004	2003	2003
	%	£000	%	£000	%	£000
Equities	7.30	5,043,000	7.90	4,190,000	8.00	3,874,800
Bonds	4.70	1,188,000	5.40	1,019,000	5.00	809,000
Property	5.40	684,000	6.70	618,100	6.00	556,100
Cash	4.50	595,000	4.50	359,000	3.50	374,000
Total market value of assets		<u>7,510,000</u>		<u>6,186,100</u>		<u>5,613,900</u>

The following data about the GMPF refers in each case to the University's estimated proportionate interest of 0.9% in that scheme.

	2005	2004	2003
	£000	£000	£000
Market value of assets	66,002	57,819	53,296
Actuarial value of liability	(76,458)	(67,560)	(64,112)
Total deficit in the scheme	(10,456)	(9,741)	(10,816)
Related deferred tax asset	-	-	-
Net pension liability	(10,456)	(9,741)	(10,816)

Analysis of the amount charged to operating deficit

	2005	2004
	£000	£000
Current service cost	1,539	1,799
Past service cost	256	8
Curtailements and settlements	20	91
Total operating charge	<u>1,815</u>	<u>1,898</u>

Analysis of net return on pension scheme

	2005	2004
	£000	£000
Expected return on pension scheme assets	4,108	3,743
Interest on pension liabilities	(3,898)	(3,530)
Net return	<u>210</u>	<u>213</u>

34 Pension schemes (continued)

c) Greater Manchester Pension Fund ('GMPF') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2005	2004
	£000	£000
Actual return less expected return on scheme assets	7,852	1,961
Experience gains and losses on liabilities	(283)	25
Changes in assumptions	(8,147)	(77)
Actuarial (loss)/gain recognised in STRGL	(578)	1,909

Movement in deficit during the year	2005	2004
	£000	£000
Deficit in scheme at beginning of year	(9,741)	(10,816)
Current service cost	(1,539)	(1,799)
Contributions	1,283	675
Contributions in respect of unfunded benefits	185	176
Past service cost	(256)	(8)
Other finance income	210	213
Impact of settlements and curtailments	(20)	(91)
Actuarial (loss)/gain	(578)	1,909
Deficit in scheme at year end	(10,456)	(9,741)

The updated actuarial valuation at 31 July 2005 showed an increase in the deficit from £9.7 million to £10.5 million. The University has paid contributions at the rate of 12% of members' pensionable pay over the year to 31 July 2005. It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	2005	Year ended 31 July		
		2004	2003	2002
Difference between expected and actual return on scheme assets:				
Amount (£000)	7,852	1,961	23	(9,596)
Percentage of scheme assets	12%	3%	0%	-19%
Experience gains and losses on scheme liabilities:				
Amount (£000)	(283)	25	105	2,228
Percentage of scheme liabilities	0%	0%	0%	4%
Total amount recognised in the statement of total recognised gains and losses:				
Amount (£000)	(578)	1,909	(6,706)	(8,488)
Percentage of scheme assets	-1%	3%	-11%	-17%

34 Pension schemes (continued)

d) Manchester Innovation Limited Group Pension Scheme ('MILGPS')

All existing employees of Manchester Innovation Limited are members of the University of Manchester Superannuation Scheme ('UMSS'). From 1 June 2003, the employees participating in the MILGPS transferred to UMSS. The MILGPS is deferred for the purposes of ex-employees.

An interim valuation of the scheme was carried out as at 1 September 2004, which has been updated to 31 July 2005 by a qualified actuary.

The market assumptions used in this valuation were:	2005 %	2004 %	2003 %
Rate of increase in pensions in payment and deferred pensions	5.00	5.00	5.00
Discount rate applied to scheme liabilities	5.10	5.70	5.40
Inflation assumptions	2.70	2.90	2.25

	2005 %	2005 £000	2004 %	2004 £000	2003 %	2003 £000
Utilised with pension policy	5.75	1,274	6.00	1,305	6.50	1,479
Other	5.75	22	6.00	22	6.50	21
Total market value of assets		1,296		1,327		1,500
Actuarial value of liability		(2,836)		(2,322)		(2,730)
Total deficit in the scheme		(1,540)		(995)		(1,230)
Related deferred tax asset		462		299		369
Net pension liability		(1,078)		(696)		(861)

Analysis of the amount charged to operating deficit

	2005 £000	2004 £000
Current service cost	(3)	(4)
Past service cost	-	-
Total operating charge	(3)	(4)

As no further benefits are accruing under the scheme, the service costs shown represent the expenses paid to Norwich Union for running the scheme over the year.

Analysis of net charge to other pension finance interest

	2005 £000	2004 £000
Expected return on pension scheme assets	74	90
Interest on pension liabilities	(127)	(141)
Net return	(53)	(51)

34 Pension schemes (continued)

d) Manchester Innovation Limited Group Pension Scheme ('MILGPS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2005 £000	2004 £000
Actual return less expected return on pension scheme assets	70	(38)
Experience gains and losses on liabilities	(122)	124
Changes in assumptions	(437)	201
Actuarial (loss)/gain recognised in STRGL	(489)	287

Movement in deficit during the year

	2005 £000	2004 £000
Deficit in scheme at beginning of year	(995)	(1,230)
Current service cost	(3)	(4)
Contributions	-	3
Past service cost	-	-
Other finance income	(53)	(51)
Actuarial (loss)/gain	(489)	287
Deficit in scheme at year end	(1,540)	(995)

History of experience gains and losses

	2005	Year ended 31 July		2002
		2004	2003	
Difference between expected and actual return on scheme assets:				
Amount (£000)	70	(38)	202	(173)
Percentage of scheme assets	5%	-3%	13%	-11%
Experience gains and losses on scheme liabilities:				
Amount (£000)	(122)	124	2	11
Percentage of scheme liabilities	-4%	5%	0%	0%
Total amount recognised in the statement of total recognised gains and losses:				
Amount (£000)	(489)	287	(411)	(270)
Percentage of scheme assets	-17%	12%	-15%	-11%

e) Pension schemes - summary

The implementation of FRS 17 'Retirement Benefits' resulted in the pension scheme deficits and actuarial (losses)/gains being included in the financial statements as follows:

Balance sheet - Pension scheme deficits

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
University of Manchester Superannuation Scheme	(10,700)	(3,716)	(10,700)	(3,716)
Greater Manchester Pension Fund	(10,456)	(9,741)	(10,456)	(9,741)
Manchester Innovation Limited Group Pension Scheme	(1,078)	(696)	-	-
	(22,234)	(14,153)	(21,156)	(13,457)

Statement of total recognised gains and losses - Actuarial (losses)/gains

University of Manchester Superannuation Scheme	(7,349)	4,430	(7,349)	4,430
Greater Manchester Pension Fund	(578)	1,909	(578)	1,909
Manchester Innovation Limited Group Pension Scheme	(489)	287	-	-
	(8,416)	6,626	(7,927)	6,339

35 Capital commitments

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Commitments for future capital expenditure: Contracted not provided	65,520	60,092	65,520	60,092

36 Contingent liabilities

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank guarantees	748	126	748	126
Contested assessment for VAT on construction costs	345	345	345	345
	1,093	471	1,093	471

37 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of the University of Manchester's Board of Governors disclosed an interest in a body with whom the University undertakes transactions which are considered material to the University's Financial Statements and/or the other party. The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other candidate group entities. Included within the financial statements are the following transactions with related parties:

	Income within the University £000	Expenditure within the University £000	Balance due to/(from) the University £000
Christie Hospital NHS Trust	1,459	1,554	455
Manchester Science Park Limited	-	187	(4)
Siemens plc	28	321	(13)
UMIST Ventures Fund Management Limited	-	35	-
Dryden Street Nursery Limited	-	28	(95)
BNFL plc	661	-	251

A block grant of £1.2 million was paid to the University of Manchester Students Union during the year ended 31 July 2005.

A grant of £40,000 was paid to the Contact Theatre during the year ended 31 July 2005.

38 Funds held by the University which are excluded from the income and expenditure account

	2005	2004
	£000	£000
Access Fund		
Balance unspent at beginning of year	76	-
Funding council grants	1,225	928
Interest earned	18	8
	1,319	936
Disbursed to students	(1,229)	(860)
Balance unspent at year end	90	76
TTA Training Bursaries	2005	2004
	£000	£000
Balance unspent at beginning of year	104	81
Funding council grants	1,942	1,887
Disbursed to students	(1,985)	(1,864)
Balance unspent at year end	61	104
Student Associates Scheme	2005	2004
	£000	£000
Balance unspent at beginning of year	92	66
Funding council grants	158	72
Disbursed to students	(131)	(46)
Balance unspent at year end	119	92
Minority Ethnic Recruitment	2005	2004
	£000	£000
Balance unspent at beginning of year	12	11
Funding council grants	11	11
Disbursed to students	(12)	(10)
Balance unspent at year end	11	12

Funding Council grants are available solely for students. The University acts only as a paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

39 Merger accounting

On 1 October 2004, The University of Manchester ('UoM') was established under Royal Charter. Under the University of Manchester Act 2004, the assets and liabilities of the two predecessor organisations, the Victoria University of Manchester ('VUM') and UMIST were transferred and those bodies dissolved. For the first two months of the year covered by these financial statements (that is, from 1 August to 30 September 2004), VUM and UMIST operated separately under the terms of their respective Royal Charters, and, in each case, with a Council exercising the statutory powers and functions of institutional governing body. During this period also, a Company Limited by Guarantee, established jointly by the Councils of VUM and of UMIST, was acting as the legal embodiment of the then putative new institution and, under powers delegated to it from time to time by the Councils, was authorised to make appointments and enter into contracts, undertakings and arrangements in the name of The University of Manchester.

Basis of accounting

The Board of Governors considered the criteria set out in FRS 6 'Acquisitions and Mergers' that require the use of merger accounting and are satisfied that the circumstances that relate to dominant influence have been fully considered and that merger accounting is the most appropriate accounting treatment to be adopted.

The financial statements have therefore been prepared on this basis in relation to the merger of VUM and UMIST into UoM. Under merger accounting the results and cash flows of the two entities have been combined from the beginning of the financial year in which the merger occurred, ie the financial year to 31 July 2005, and for all prior periods.

The purpose of this note is to disclose the effects of combining the two predecessor organisations to form the new University of Manchester for the consolidated income and expenditure account (a), the consolidated statement of historical cost profits and losses (b), the consolidated statement of total recognised gains and losses (c) and the consolidated balance sheet (d).

The last published sets of financial statements for VUM and UMIST, for the year ended 31 July 2004, were combined to form the comparative figures for UoM. Note 39 (e) gives further details relating to the effects of the prior year restatements on those comparative figures.

The results for VUM and UMIST for the two months ended 30 September 2004, ie up to the date of merger, are disclosed separately in notes (a) to (c) and are combined with the 10 months ended 31 July 2005 for UoM post merger to form the results disclosed for UoM for the 12 months ended 31 July 2005 throughout the financial statements.

39 Merger accounting (continued)

a) Consolidated income and expenditure account	2 months to 30 September 2004 Restated		10 months to 31 July 2005	12 months to 31 July 2005	12 months to 31 July 2004 Restated		UoM £000
	VUM £000	UMIST £000	UoM £000	UoM £000	VUM £000	UMIST £000	
Income	56,384	18,719	464,877	539,980	385,016	126,337	511,353
Expenditure	67,434	22,708	450,900	541,042	372,319	126,454	498,773
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation	(11,050)	(3,989)	13,977	(1,062)	12,697	(117)	12,580
Exceptional items	(1,235)	(245)	(7,403)	(8,883)	(8,243)	(1,638)	(9,881)
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation	(12,285)	(4,234)	6,574	(9,945)	4,454	(1,755)	2,699
Tax	13	5	91	109	(375)	(93)	(468)
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation, exceptional items and taxation	(12,272)	(4,229)	6,665	(9,836)	4,079	(1,848)	2,231
Minority interests in surplus for the year	-	-	-	-	-	(92)	(92)
Transfers from accumulated income within specific endowments	(3)	-	(13)	(16)	1,492	(49)	1,443
(Deficit)/surplus for the year retained within general reserves	(12,275)	(4,229)	6,652	(9,852)	5,571	(1,989)	3,582
b) Consolidated statement of historical cost surpluses and deficits							
	2 months to 30 September 2004 Restated		10 months to 31 July 2005	12 months to 31 July 2005	12 months to 31 July 2004 Restated		UoM £000
	VUM £000	UMIST £000	UoM £000	UoM £000	VUM £000	UMIST £000	
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation	(12,285)	(4,234)	6,574	(9,945)	4,454	(1,755)	2,699
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	2	30	160	192	13	307	320
Historical cost (deficit)/surplus for the year before taxation	(12,283)	(4,204)	6,734	(9,753)	4,467	(1,448)	3,019
Historical cost (deficit)/surplus for the year retained after taxation, exceptional items and transfers in respect of specific endowments	(12,273)	(4,199)	6,812	(9,660)	5,584	(1,682)	3,902

39 Merger accounting (continued)

c) Consolidated statement of total recognised gains and losses	2 months to 30 September 2004 Restated		10 months to 31 July 2005 UoM £000	12 months to 31 July 2005 UoM £000	12 months to 31 July 2004 Restated		UoM £000
	VUM £000	UMIST £000			VUM £000	UMIST £000	
(Deficit)/surplus for the year retained within general reserves	(12,275)	(4,229)	6,652	(9,852)	5,571	(1,989)	3,582
Unrealised surplus on revaluation of donated assets	-	-	165	165	-	224	224
Unrealised surplus on revaluation of investments within fixed assets	1,682	-	16,870	18,552	20	-	20
Net appreciation of endowment assets including reinvested profits on sales	4,288	-	18,760	23,048	2,163	1	2,164
New endowments less realisations	178	-	910	1,088	3,039	48	3,087
Specific and general endowment income received	598	-	2,987	3,585	3,152	-	3,152
Specific and general endowment income released to income and expenditure account	(595)	(142)	(2,832)	(3,569)	(4,644)	-	(4,644)
Actuarial (loss)/gain recognised in the pension scheme	-	-	(8,416)	(8,416)	4,717	1,909	6,626
Total recognised (losses)/gains relating to the year	(6,124)	(4,371)	35,096	24,601	14,018	193	14,211
Reconciliation							
Opening reserves and endowments	244,789	6,906	241,200	251,695	230,771	6,713	237,484
Total recognised (losses)/gains for the year	(6,124)	(4,371)	35,096	24,601	14,018	193	14,211
Closing reserves and endowments	238,665	2,535	276,296	276,296	244,789	6,906	251,695

39 Merger accounting (continued)

d) Consolidated balance sheets	As at 30 September 2004			As at 31 July 2004		
	VUM £000	Restated UMIST £000	Total £000	VUM £000	Restated UMIST £000	Total £000
Fixed assets						
Tangible assets	213,266	80,444	293,710	205,453	77,707	283,160
Intangible assets	-	93	93	-	682	682
Investments	49,266	2,996	52,262	47,711	2,661	50,372
	262,532	83,533	346,065	253,164	81,050	334,214
Endowment assets	100,305	2,581	102,886	95,836	2,723	98,559
Current assets						
Stocks	1,935	77	2,012	1,518	244	1,762
Debtors: amounts falling due within one year	47,722	13,330	61,052	52,747	17,477	70,224
Debtors: amounts falling due after more than one year	528	361	889	180	361	541
Investments	69,229	4,407	73,636	73,413	3,986	77,399
Cash at bank and in hand	4,712	10,013	14,725	5,122	8,902	14,024
	124,126	28,188	152,314	132,980	30,970	163,950
Creditors: amounts falling due within one year	(92,628)	(37,006)	(129,634)	(80,535)	(31,904)	(112,439)
NET CURRENT ASSETS/(LIABILITIES)	31,498	(8,818)	22,680	52,445	(934)	51,511
TOTAL ASSETS LESS CURRENT LIABILITIES	394,335	77,296	471,631	401,445	82,839	484,284
Creditors: amounts falling due after more than one year	(44,858)	(18,490)	(63,348)	(45,321)	(19,485)	(64,806)
Provisions for liabilities and charges	(435)	(2,275)	(2,710)	(435)	(2,308)	(2,743)
NET ASSETS EXCLUDING PENSION DEFICIT	349,042	56,531	405,573	355,689	61,046	416,735
Pension deficit	(4,412)	(9,741)	(14,153)	(4,412)	(9,741)	(14,153)
NET ASSETS INCLUDING PENSION DEFICIT	344,630	46,790	391,420	351,277	51,305	402,582
Deferred capital grants	105,965	44,287	150,252	106,488	44,096	150,584
Endowments						
Specific endowments	94,744	2,581	97,325	90,275	2,723	92,998
General endowments	5,561	-	5,561	5,561	-	5,561
	100,305	2,581	102,886	95,836	2,723	98,559
Reserves						
Revaluation Reserve	9,095	722	9,817	7,413	775	8,188
General Reserve	129,265	(768)	128,497	141,540	3,408	144,948
	138,360	(46)	138,314	148,953	4,183	153,136
Minority interests in subsidiary companies	-	(32)	(32)	-	303	303
TOTAL FUNDS	344,630	46,790	391,420	351,277	51,305	402,582

39 Merger accounting (continued)

e) Prior year adjustments and merger alignments

The prior year adjustments and merger alignments relate to the implementation of FRS 17 (i), an adjustment to deferred tax within Manchester Innovation Holdings Limited, a wholly owned subsidiary (ii), the alignment of the investments accounting policy to restate investments to the lower of cost and net realisable value (iii) and certain other reclassifications as detailed below (vi).

In addition, Manchester Science Park which was previously held as an investment within both UMIST and VUM has been equity accounted for as an associated undertaking (iv), and UMIST Educational Trust has been removed from prior year figures as it is no longer consolidated (v).

Analysis of prior year adjustments and merger alignments

	2 months ended 30 September 2004			Year ended 31 July 2004		
	VUM £000	UMIST £000	Total £000	VUM £000	UMIST £000	Total £000
Adjustments to Provisions Previously stated at period end	8,386	2,275	10,661	7,238	2,308	9,546
Deferred tax prior year adjustment (ii)	(1,532)	-	(1,532)	(1,532)	-	(1,532)
Reclassification as detailed below	(6,419)	-	(6,419)	(5,271)	-	(5,271)
Restated at period end	435	2,275	2,710	435	2,308	2,743
Adjustments to Investments Previously stated at period end	47,519	6,164	53,683	45,964	5,829	51,793
Alignment of investments accounting policy (iii)	-	(3,168)	(3,168)	-	(3,168)	(3,168)
Treatment of Manchester Science Park as an associate (iv)	1,747	-	1,747	1,747	-	1,747
Restated at period end	49,266	2,996	52,262	47,711	2,661	50,372

39 Merger accounting (continued)

Analysis of prior year adjustments and merger alignments	2 months ended 30 September 2004			Year ended 31 July 2004		
	VUM £000	UMIST £000	Total £000	VUM £000	UMIST £000	Total £000
Adjustments to opening reserves						
Previously stated at beginning of period	254,167	19,869	274,036	244,055	20,778	264,833
FRS 17 (i)	(12,657)	(9,741)	(22,398)	(16,559)	(10,816)	(27,375)
Deferred tax (ii)	1,532	-	1,532	1,594	-	1,594
Alignment of investments accounting policy (iii)	-	(3,168)	(3,168)	-	(3,201)	(3,201)
Treatment of Manchester Science Park as an associate (iv)	1,747	-	1,747	1,681	-	1,681
Removal of UMIST Educational Trust (v)	-	(54)	(54)	-	(48)	(48)
	(9,378)	(12,963)	(22,341)	(13,284)	(14,065)	(27,349)
Restated at beginning of period	244,789	6,906	251,695	230,771	6,713	237,484
Adjustments to income and expenditure for the period						
Previously stated	(12,275)	(4,176)	(16,451)	6,382	(1,182)	5,200
FRS 17 (i)	-	-	-	(815)	(834)	(1,649)
Deferred tax (ii)	-	-	-	(62)	-	(62)
Alignment of investments accounting policy (iii)	-	-	-	-	33	33
Treatment of Manchester Science Park as an associate (iv)	-	-	-	66	-	66
Removal of UMIST Educational Trust (v)	-	-	-	-	(6)	(6)
	-	-	-	(811)	(807)	(1,618)
Restated	(12,275)	(4,176)	(16,451)	5,571	(1,989)	3,582
Adjustments to total recognised gains and losses for the period						
Previously stated	(6,124)	(4,371)	(10,495)	10,112	(909)	9,203
FRS 17 (i)	-	-	-	3,902	1,075	4,977
Deferred tax (ii)	-	-	-	(62)	-	(62)
Alignment of investments accounting policy (iii)	-	-	-	-	33	33
Treatment of Manchester Science Park as an associate (iv)	-	-	-	66	-	66
Removal of UMIST Educational Trust (v)	-	-	-	-	(6)	(6)
	-	-	-	3,906	1,102	5,008
Restated	(6,124)	(4,371)	(10,495)	14,018	193	14,211
Adjustments to closing reserves						
Previously stated at period end	248,043	15,498	263,541	254,167	19,869	274,036
FRS 17 (i)	(12,657)	(9,741)	(22,398)	(12,657)	(9,741)	(22,398)
Deferred tax (ii)	1,532	-	1,532	1,532	-	1,532
Alignment of investments accounting policy (iii)	-	(3,168)	(3,168)	-	(3,168)	(3,168)
Treatment of Manchester Science Park as an associate (iv)	1,747	-	1,747	1,747	-	1,747
Removal of UMIST Educational Trust (v)	-	(54)	(54)	-	(54)	(54)
	(9,378)	(12,963)	(22,341)	(9,378)	(12,963)	(22,341)
Restated at period end	238,665	2,535	241,200	244,789	6,906	251,695

Reclassifications (vi)

Provisions of £6.4 million at 30 September 2004 (31 July 2004 - £5.2 million) were reclassified from provisions to creditors due within one year since these amounts are certain to be paid and can be reliably quantified.

Fixed assets with a net book value of £72 million at 31 July 2004 were reclassified from assets under construction to land and buildings (note 11).

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